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THE NEXT SOUTH KOREA?

BROOKS BROTHERS KEEPS STRUGGLING WITH CHANGE

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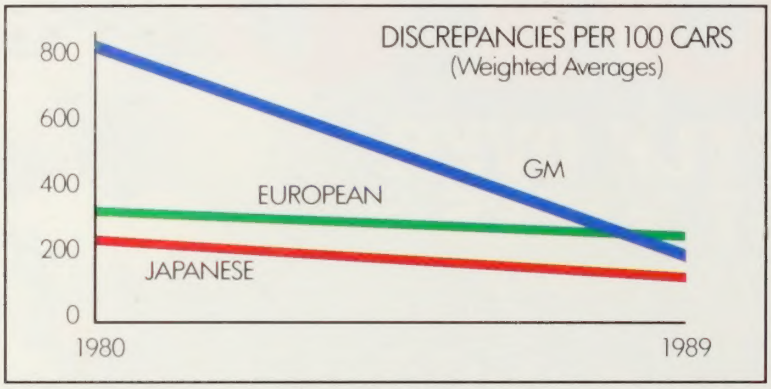
YOU ASKED US TO CHANGE MORE THAN JUST THE LOOKS OF OUR CARS AND TRUCKS. AND WE HEARD YOU.

We've introduced 77 new models since 1985, dramatically improving almost all the cars and half the trucks we make. The looks are new, of course, but the big improvements are in the heart of our cars and trucks—in the engines, transmissions, and electrical systems.

Quality That Lasts

According to one quality survey by Harbour & Associates, GM vehicles are better built than the average European import, and the difference between GM and the average Japanese import is less than one-half of one discrepancy per car. Other studies confirm GM's improvement.



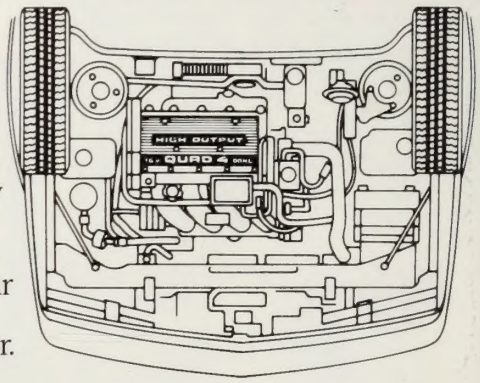
You can count on GM cars for the long term. When J.D. Power studied the dependability of 1985 models, GM was ranked highest in vehicle dependability among all American manufacturers.* No other U.S. carmaker has done the job better in the last five years.

What does this kind of quality mean to our customers? Just ask. After six months of ownership, at least 95% of all Chevrolet, Pontiac, Oldsmobile, Buick, Cadillac, or GMC Truck owners would recommend a vehicle from that division to a friend.

(*J.D. Power and Associates Vehicle Dependability Index Study.℠ In a ranking of the three domestic manufacturers, based on things gone wrong to 4-to-5-year-old 1985 model vehicles in the past 12 months.)

Dependable Engines

GM's engines are more dependable than those of all other domestic carmakers. Our 3800 V-6 is at the top in engine quality among engines from all makers, foreign or domestic, according to the most comprehensive customer-based survey in the auto industry.



In the latest evaluation of 1989 engine quality, the 2.3-liter Quad 4 was as problem-free as 2-liter engines from Toyota or Honda after 3 months' ownership. In the latest survey of a full year of ownership (for 1988 models), Cadillac owners reported fewer engine problems than Toyota or Mercedes-Benz owners, a tribute to the 4.5-liter V-8 engine. In 1990, we're dedicated to delivering the quality you demand.

Problem-free Transmissions

Any car or truck is only as reliable as its transmission. Our automatic transmissions are more problem-free than those of most imports, and more problem-free than any domestic competitor.

We Care About You

Today there is a new pride at GM. A new commitment to quality. A clear focus on our customers and on their needs.

People throughout General Motors, the GM Quality Network, are dedicated to continually improving our vehicles. Year after year. Until every model is as good as the best in the world.

All of GM going all out for you.

PUTTING QUALITY ON THE ROAD

GM

MARK OF EXCELLENCE

Chevrolet Pontiac Oldsmobile Buick Cadillac GMC Truck

QUALITY STARTS WHEN THE BUCK STOPS.

Quality doesn't come from some department, or an inspector, or a memo from the CEO.

Or from an ad, for that matter.

It comes from 20,000 people being given the freedom and the responsibility to do the job right.

It's happening at the new Wang. A revolution of power to the people.

Some examples:

Every single systems order we receive, no matter how big or small, is assigned to a group of people at the factory.

They "own" that order, from beginning to end.

They guide it through every step of the order-build-ship-bill cycle. They personally ensure that a quality product is delivered, complete and on-time. First time, every time.

On a larger scale, every new product we develop for our customers is guided by a single program manager leading a program team.

Together, they "own" that product.

They have sole responsibility to determine the product specs, project costs and volume, set product introduction dates, establish training and customer service strategies—and most importantly, only that team says when that product is fully debugged and ready to roll out the door.

And that team never turns its back on that product—or on you. Once the product is in your office, that team is fully responsible for customer service and future product enhancements as well.

At every step, the customer knows who to call with questions or ideas.

The owner. One call, one straight answer.

It's where the buck stops. And the quality starts.

LET'S GET TO WORK. WANG

How to Choose A Scotch to Impress Your Dad.

Maturity. Sophistication. Taste. All characteristics much admired in fathers, and coincidentally, in fine Scotch. Specifically, in Ballantine's Finest, a smooth, mellow, yet full-flavored blend. Matured in oak. Blended with sophistication. True Scotch taste present and accounted for in every sip.

Very impressive.

Ballantine's
THE TRUE TASTE OF SCOTCH™

Ballantine's Blended Scotch Whisky 43% Alc./Vol. (86 proof). © 1990 Maidstone Wine & Spirits Inc., Los Angeles, CA.

How to Choose A Scotch to Impress Your Father-in-law.

You actually like your father-in-law.

When you come over, he's pleased to see you, and not just because you've brought his daughter. He's interested in your work, your garden, even your opinion. He shows you his latest project and solicits your advice (although he ignores it later).

And he pours you a nice glass of Scotch without waiting for you to ask. His brand? Ballantine's Finest. A sophisticated blend of 42 superb single malt Scotch whiskies and the most popular Scotch in Europe.

A real gentleman, your father-in-law.

So the next time you visit, make the right impression by employing the Golden Rule. Along with his daughter, bring him a bottle of Ballantine's Finest.

When you touch glasses, murmuring an appreciative toast, savor the moment contemplating the woman whose life you share. Then lift the golden spirit and drink in the smooth, mellow flavor with a hint of peat and a breath of smoke.

You'll both be glad that you married into the clan.

Ballantine's.
THE TRUE TASTE OF SCOTCH™

How to Choose A Scotch to Impress Your Taste Buds.

In the homes, pubs and hotel bars of Scotland there is a time-honored ritual, handed down from father to son, for the enjoyment of Scotch whisky. It involves clean glasses, moderate amounts of the amber nectar, and a penchant for spirited conversation. The latter being just as essential as either of the former. Once the drinks are poured and pleasantries exchanged, the typical debate begins.

Ballantine's Finest: Good taste installed and maintained.

One rather opinionated participant firmly maintains that the best single malt Scotch whisky comes from the Highlands. Another is adamant in support of the Orkney Island whiskies from the far north. For another, nothing but a softer, sweeter Lowland malt will do, while a staunch advocate of the bold, peaty flavor of Islay insists on being heard. Being Scots, each remains convinced that his opinion is correct, in perpetuity. Of course, when all is said and done, many prefer a blended Scotch like Ballantine's Finest. Because Ballantine's blends 42 of the top single malts from all over Scotland, the taste of the Finest tends to resolve disputes in a most diplomatic manner.

The Royal Scottish Debating Society. I learn from the experts.

If your favorite establishment doesn't yet serve Ballantine's, drop us a line.

But how is the well-intentioned American, who is not born in a land of peat and heather, to form an opinion about Scotch? A good place to start is right in your own home. First, free yourself from distractions. Now pour a healthy shot of Ballantine's and let your senses take over.

Can you detect the subtle fragrance of heather?

Swirl it around, feeling the heft of the glass as the golden liquid shifts from side to side. Notice the malty aroma, and a fragrance reminiscent of vanilla. It's interesting to note that 90% of your sense of taste is centered not in the tongue or mouth, but in the nose. In fact, Ballantine's blenders, the legendary men who create and preserve the Finest, test hundreds of single malts and blends on a daily basis. And they do it with their noses.

Now add a little water and hold it up to the light. It's a beautiful sight as the clear water and golden Scotch mingle together in a shimmering waltz of higher chemistry. Your anticipation builds. Lift the glass and take a sip. The first thing you may notice is a cool, slightly sweet taste. Let the smooth liquid float on your tongue for a moment before swallowing. Then a mellow whiff of peat makes its presence known, and finally, a soft brush of smoke in the finish. It's as if all the virtues of all the wonderful, diverse, eccentric Scotch whiskies landed in your glass at once.

Even though your nose might be the final authority, we'll understand if your taste buds are also impressed.

Please write. We welcome all correspondence.

Ballantine's.
THE TRUE TASTE OF SCOTCH™

Write to: Ballantine's P.O. Box 8925 Universal City, CA 91608.

Forbes

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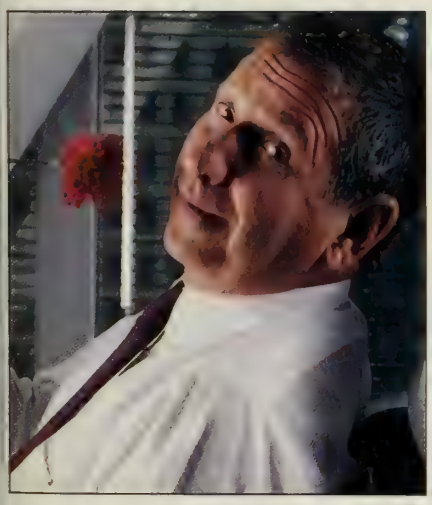

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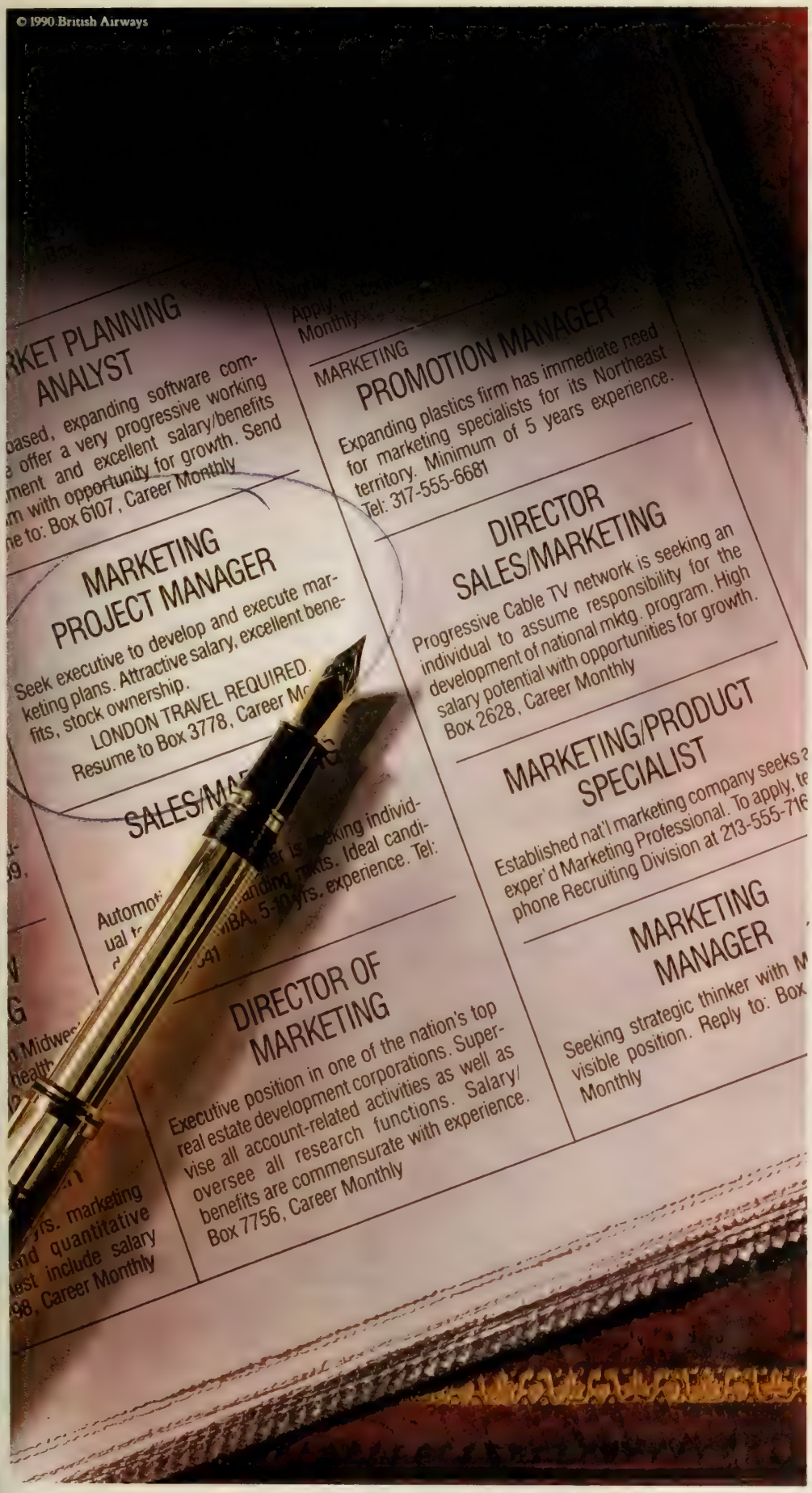

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Side Lines

"Fighting for peace"

AP/Wide World

Winston Churchill
Danger in weakness.

As a boy in California in the 1930s Caspar Weinberger deeply admired Winston Churchill. At that time most people dismissed the man with the cigar and Edwardian walking stick as an anachronism and crackpot. Churchill preached that weakness in the democracies rather than Germany's strength enabled Hitler to jackboot his way across Europe. Churchill was right. A few French divisions would have doomed Hitler in 1936; in the 1940s stopping his reign of terror cost tens of millions of casualties.

This early experience informed much of Cap Weinberger's thinking in his long political career. He had a remarkable chance to act upon it when he became Secretary of Defense in 1981 and played a leading role in the Reagan Administration's defense program. History will surely record that this U.S. arms buildup helped persuade the folks in the Kremlin they could no longer compensate for economic failures by adventures abroad.

Now Publisher of FORBES, Cap Weinberger tells his story in *Fighting For Peace* (Warner Books, $24.95). (On a more recent note, his inside account of the Irangate episode is especially worth reading.) His views may sound old-fashioned—just as Churchill's did 50 years ago—but events around the world confirm the view that strength, not weakness, is the surest path to peace. (For more on this theme, see "The ultimate weapon?" beginning on page 86.)

The rewards of waiting for fads to pass

Professing to be a contrarian investor is easier than being one. In this issue, Staff Writer Suzanne Loeffelholz profiles the genuine article: Maxwell Drever, head of San Francisco's Drever Partners. Like a migratory scavenger, Maxwell moves from one depressed real estate market to the next, buying apartment buildings at fractions of their original cost, sprucing them up, and selling them off. Maxwell's current focus of activity, Houston, won't surprise you, but how he times his moves and what he does to his properties will. "How the vultures do it" starts on page 42.

In a story with a similar theme, Senior Editor Howard Rudnitsky takes a fresh look at oil and gas partnerships. When oil was all the rage, partnerships sucked in millions of unwary investors. But Rudnitsky finds that several partnerships have since been beaten down so far they're selling at steep discounts from any reasonable valuation of their reserves. "Rummaging through the oil patch" starts on page 40.

James W. Michaels
Editor

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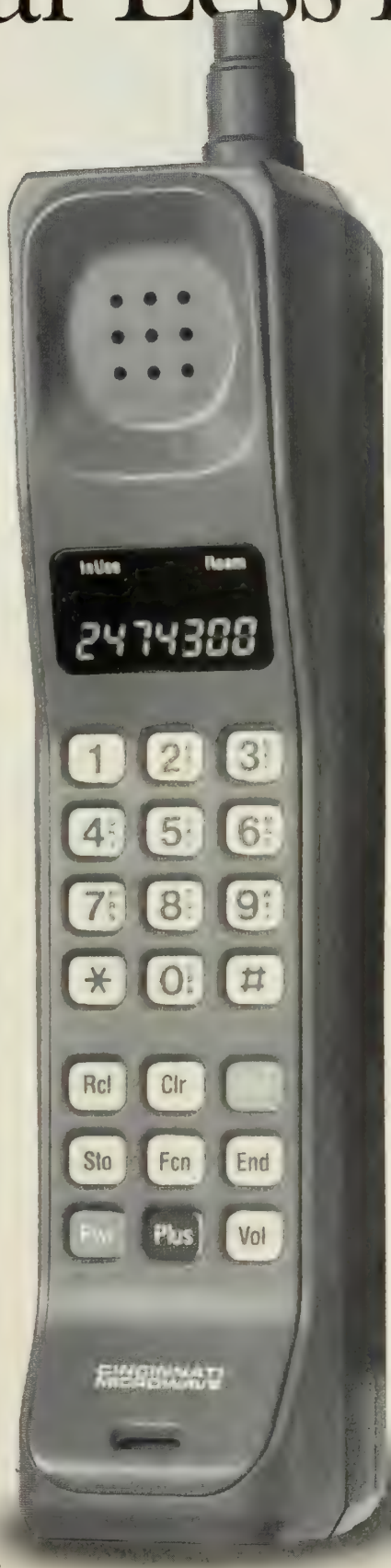

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Edited by Edward Giltenan

Postnuptial agreement

Lorraine Rorke

In the end, Doug gave in to Susie

Doug Tompkins is full of surprises. First he waged a two-year battle against his estranged wife, Susie, for control of Esprit de Corp., the apparel maker she founded in 1968. Then, early last month, Doug, 47, unexpectedly sold his half of the company to Susie, also 47, and three partners. The real shocker: He let his stake go for about $125 million, less than it was expected to fetch at an auction that was set to take place in just a few days' time. "He was willing to sell at a lower price because he wanted to keep Esprit in the family," says one person close to the deal.

In 1988, the last time FORBES wrote about the Tompkinses, their marriage and their San Francisco-based company were on the rocks. Department stores complained that the Tompkinses were arrogant and had lost touch with Esprit's young, mostly female customers. Earnings dropped to an estimated $10 million in 1987. Sales flattened out at about $400 million. Now that control has been reconsolidated in Susie Tompkins' hands, Doug, an avid outdoorsman, says he will pursue "social, political and environmental issues." But he is not completely out of the picture at Esprit. He still controls a small Esprit design and retail affiliate in Milan. There are also rumors that Esprit's Far East affiliate, of which Doug owns 25%, will be merged into the U.S. company. If so, Doug will again find himself holding stock in Esprit's U.S. arm.—**Ralph King Jr.**

Wendy Watson

Partner problems

Stephen C. Cook

When FORBES profiled Houston's Duncan, Cook & Co. in late 1988, the firm was doing leveraged buyouts of obscure companies, including a grocery chain and a purveyor of high-quality specialty tools and gadgets. The firm's investments have fared well, but it now appears that Duncan, Cook's internal controls left much to be desired.

In April the company sued one of the founding partners, Stephen C. Cook, charging him with diverting at least $2.7 million of the firm's money to his personal checking accounts to support his lavish lifestyle. Cook allegedly covered his tracks by providing the company's board of directors with falsified financial information. The firm's suit against Cook, filed in Texas state court, seeks at least $5 million and asks that Cook be forced to hand over his well-appointed Houston estate as well as his 2,800-acre spread in New York's Adirondack Mountains.

Cook, who is now running his own Houston-based investment company, Fieldstone Partners, denies any wrongdoing. He says he and his former partners, including ex-U.S. Secretary of Energy Charles W. Duncan, are discussing a settlement. Duncan, Cook currently is operating as Gulf Partners.—**John H. Taylor**

Freddy Kreuger, R.I.P.

Not long ago, it looked like Freddy Kreuger's last victim might be New Line Cinema, the company that brought the razor-nailed psychopath to the horror screen six years ago in *Nightmare on Elm Street*. Last year FORBES worried that as Freddy's popularity faded, New Line would need another moneymaker—and soon.

But within months New Line founder and chief executive Robert Shaye pulled a turtle out of his hat. He picked up U.S. marketing and distribution rights to a film that every major studio had passed on: *Teen-Age Mutant Ninja Turtles*. The film, released in March, has grossed $125 million so far, and New Line is expected to take home at least 15% of the pot. Shaye hopes to be able to distribute a *Turtles* sequel in 1991.

New Line's shares have moved to an alltime high of 15¼, compared with a low of 5½ at the end of 1989. The company earned $740,000, or 11 cents a share, in this year's first quarter, on revenues of $29 million.

Another Shaye success came in March with his release of *House Party*, a $2.5 million knockoff of *Risky Business* with one key difference: It starred teenage blacks, while *Risky Business* starred whites. *House Party* has so far grossed $25 million. Says Shaye, "We had a chance to prove we weren't dependent on Freddy—and now we have."—**Lisa Gubernick**

Turtles to the rescue

Timothy White/Onyx

THE POLO CHINO
RALPH LAUREN

You have to dri

Without doubt, the Honda Accord is a great automobile. The experts have said that for years. It has become the benchmark for other auto makers. Its record is truly impressive.

Incredibly, then, this year we have redesigned the Accord. And our new car will set new standards.

The new Honda Accord is bigger and better than ever before. There is more room inside, the ride is more comfortable and the car is much more responsive under all driving conditions.

And there is its unique beauty.

Flat surfaces and contours blend harmoniously while all the lines flow smoothly. The front of the car rounds to the wind and stylish new headlights mount flush to the airflow. While the rear is high and designed according to automotive aerodynamic principle.

You'll see a substantial increase in glass area which adds to your comfort and visibility. You'll find comfortable space inside the car between yourself and other passengers.

Because the new Honda Accord has a longer wheelbase and is more solid, we redesigned the race-proven, 4-wheel double wishbone suspension system. The ride and handling are immensely improved. There is a new speed sensitive, variable-assist powe steering. It progressively adjusts th amount of assistance for improved road feel for the driver. It does this a all speeds.

The body looks almost like it i sculptured from a solid mass of ste Designers concentrated on reducin the number of seams, refining fit a finish and countless other details.

A new method of body buildi stiffens the car to further improve a quiet the ride.

Once seated in the Accord, you greeted by a bright, airy environme that immediately puts you at ease. controls and instruments are logical placed. Everything falls into your li of sight and is within your reach. Th whole interior seems designed arou you. It fits. You fit.

© 1989 American Honda Motor Co., Inc

it to believe it.

The front seats are larger and offer more support. Rear seats contour for better comfort. They are made from one piece of moulded foam.

Door panels and the instrument panel are each moulded from a single piece so there is nothing to rattle. The headliner is built to absorb noise and is recessed for the windshield visors and passenger-assist handles. Everything

blends in nice and flush for a more fitted appearance.

A new ventilation system that is quiet and significantly more efficient measures your comfort. The controls are large and easy to use.

Under the aggressive looking and low sloping hood is a new and larger fuel-injected engine. It now has more horsepower and torque for improved performance in the ranges you most often drive. Such as getting through city traffic and on the highway.

Imaginative Honda technology makes the new engine run smoothly and quietly. Balance shafts built in the engine cancel the inertial forces that cause other engines to twist and shake. It's amazing.

Other refinements additionally reduce vibration and noise. And help to increase performance.

The durable Honda five-speed manual transmission has also been redesigned. It is stronger and more rigid to match the increased engine power and torque. It's also smoother and quieter.

There's a new Honda four-speed automatic transmission available that is very compact, smooth shifting and efficient. And the transmission has a driver selectable Sport mode with lockup torque converter.

Everything about the new Accord is designed to increase the quality of driving. It is a car attuned to the driver. It makes you more pleasantly aware of the enjoyment of driving.

In this case, driving is believing.

HONDA

The New Accord

Forbes Informer

Edited by Eric Schmuckler

All in the family

The hiring practices of Columbia Pictures' co-supremo Jon Peters continue to raise plenty of eyebrows, even in Hollywood. It's well known that Peters hired his girlfriend, Darris Hatch, away from the ICM agency and installed her as a senior production executive—at a reported $250,000 per annum. Recently Peters' son's girlfriend, Liz Spete, came aboard as a junior exec. And lest we forget, Peters' old flame, Barbra Streisand, finally got her long-delayed *Prince of Tides* project rolling under Peters' aegis.

Peters' latest move involves one of

Jon Peters and ex-wife Christine
Now she gets a prestige bungalow.

the three highly prized, prestige bungalows on Columbia's Culver City lot. These office-suites are usually awarded exclusively to the studio's most coveted talent. Producer/star Michael Douglas has one, James L. Brooks *(Taxi, Broadcast News)* has another. Number three will go to Peters' ex-wife Christine, who has never made a movie but now has landed her own production deal with the studio, and is working, among other things, as a glorified location scout. It's hard to imagine how the people at Sony take in all this.

What goes up . . .

There were plenty of smiling faces at a mid-June luncheon held to introduce AT&E Corp.'s long-delayed Dick Tracy-style wristwatch pager. One jolly investor who has seen AT&E shares nearly double in the past three months was asked what was propping up the company's stock. "Levitation," he joked. More seriously, he professed a keen admiration of the promotional skills of AT&E founder

Dick Tracy and his wristwatch-radio
Lots of static and no revenues.

and chairman, Don Hoff.

The beeper in question has yet to produce a penny in revenue but has recently propelled AT&E's 11.4 million Amex shares to a giddy market value of $257 million. Don Hoff has been down this road before. He raised $40 million in stock in a previous telecommunications startup, Comdial, from public investors back in 1983. These shares, which hit 33⅛ in 1983, were recently traded for a paltry 75 cents.

The shorts are betting that AT&E will end up as did Comdial. Of the 4 million AT&E shares in the public float, almost half have been sold short. And some insiders appear to share the shorts' skepticism. In May, with the stock climbing, two AT&E directors unloaded big chunks of their holdings.—**Fleming Meeks**

Insecurity systems

An outfit named Alert Management Services is flogging a limited partnership that allows investors to play the home burglar alarm business. Given rising concern about crime, that's a flashy selling point. But is your money safe with Alert?

Alert Income Partners IV has raised $85 million, in units of $100,000 each, to buy mom-and-pop security monitoring systems in this highly fragmented, $4.6 billion industry. Three earlier partnerships raised $72 million. The sponsor dangles a 15% annual return, with a return of capital plus a 35%-to-50% premium.

Before you sign up, consider this: The sponsor and sellers are taking 20% off the top for commissions, expenses and "services." Even in the fee-happy world of limited partnerships, that's a little on the rich side.

Where most of the earlier partnerships bought security systems at around two times annual account revenues, Alert IV now plans to pay a costly three times revenues. The top gun at Alert, one Larry H. Welch, doesn't exactly instill feelings of security, either. In 1985 Welch bought a piece of a troubled Midwest chain of electronics stores and bungled the bid for another chain, with both retailers ending up in Chapter 11.

Stick 'em up

Quick, what's the bank robbery capital of America? Detroit? Miami? New York City? Nope. It is greater metropolitan Los Angeles, where there were no more than 3,300 banks and a stunning 1,440 heists in 1989. That works out to four bank jobs a day. Average take: $2,500. And things are getting worse, with robberies up 7% already this year.

Why Los Angeles? "A few years ago, there was a gas station on every corner. Now there's a bank," says Mark Llewellyn, a bank robbery specialist for the Los Angeles Federal Bureau of Investigation. Llewellyn also blames California's extensive freeway system, which he says facilitates getaways, albeit temporary ones: The FBI says it nabs about 85% of Los Angeles bank robbers. The Feds describe most of the thieves as narcotics users.

Now the city's bankers, too, are fighting back. In April the 400-compa-

Laura Cornell

nies-strong California Bankers Association took out the first of a possible series of full-page "Wanted poster" ads in the *Los Angeles Times* with photographs of 16 suspected area bank robbers. Six suspects have already been captured.—**Julie Schlax**

Junior is better

When Texas oilmen Cyril Wagner and Jack Brown bought conglomerate Insilco Corp. in late 1988, no one was happier than their investment bankers, Merrill Lynch. Merrill collected at least $23 million in fees on the billion-dollar deal, and invested in it as well. Nearly half the purchase price—some $488 million—was raised by issuing junk debt. Of this, $270 million was in senior notes and $218 million in high-yield junior debentures. Merrill ended up with a little more than half of the junior debt, plus stock and warrants worth 23% of the equity in Insilco.

Alas, Insilco has been hurt by weakness in its auto, computer and defense segments. The value of the senior paper is off 50%, and the junior debt is faring even worse. The company is not in imminent danger, but Wagner and Brown have embarked on a recapitalization plan before things get really bad.

The proposed recap has some of the senior noteholders up in arms. They complain that they are being asked to take a hit of 60% or so on their investment in exchange for cash and more notes, while Merrill and the other junior debt holders will take an estimated 45% hit in exchange for notes and equity. The senior creditors receive no such equity sweetener, while Merrill, as the biggest junior debt holder, will see its stake rise to 30% if all the debt is exchanged. Merrill will also get another $5.4 million fee if the exchange comes off.

Negotiations are continuing between management and bondholders. Merrill refuses comment because the offer is still pending.

Hush, money

"Capitalist" Poland still seems to have lingering doubts about the joys of wealth. Take *Firma,* a leading Polish business monthly. The magazine warns against aggravating the "financial differences between people" and calls for restraint in personal spending to minimize inequality.

"In today's world," *Firma* counsels soberly, "strong material inequality has not done anybody any good." Really? We thought it motivated some people to roll up their sleeves and work.—**Katarzyna Wandycz**

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Readers Say

The kids are all right

SIR: Rad cover, dude!
—Wayne W. Wright
Laguna Niguel, Calif.

SIR: The brat market of today ("Hey, dude, let's consume," *June 11*) will be the fat market of tomorrow. We have succeeded in creating the most sedentary and obese kids that this country has ever seen. Their diets are filled with empty calories and their games are grooming grounds for spectator sports.
—Suzanne P. Quintner
Milford, Conn.

SIR: Don't forget about sports equipment. Our ten-year-old insists that Tacklas and Micron Megas will help his hockey game. And of course Diadora cleats and a hand-sewn leather ball are the only way to go in soccer. We're encouraging him to study ophthalmology in case the pro scouts miss him. Yes, Duncan, the Porsches probably belong to the eye doctors and not the patients.
—Judith Clark
Pepperell, Mass.

SIR: Too bad today's families don't invest more time instead of money.
—Beret A. Guidera
Eau Claire, Wis.

We are family

SIR: Your article "The family with a sweet tooth" *(May 14)* departs from an objective analysis of the Fanjul family business. Since coming to the United States after the Castro takeover, they have created thousands of jobs in Florida. Although the Fanjuls have gained from the support pricing of sugar, why are they singled out? Other major sugar producers have benefited from artificial pricing, some even more than the Fanjuls. As for the family loyalties, it would do our country good if we had more of this closely knit family tradition.
—Raphael Katzen
Cincinnati, Ohio

And the winner is . . .

SIR: Re your Fact and Comment on a national census lottery *(June 11)*. The government should not get into the business of setting up cash incentives to obey its laws. Would you also suggest a poll lottery to encourage voting, and a tax lottery to encourage sending in tax returns?
—M.J. Fulca
Mt. Pleasant, S.C.

SIR: Why wait a decade to try this idea? The same logic could be applied to induce people to vote, or file their income tax returns.
—Geneviève Ségol
San Francisco, Calif.

New nukes

SIR: Re "The greenest form of power" *(June 11)*. It was not the nuclear industry, or even the architect-engineering firms, that refused to standardize designs. Westinghouse, GE, Combustion Engineering and others had proposed standard designs in the early 1970s. The NRC even proposed regulations for approving replicate plants, if the utility would propose to build a plant just like a previously approved one. Somehow the regulatory structure, with rigid interpretation of various rules, found it impossible to implement the new regulations. The industry felt stabbed in the back, and lost confidence in the ability of NRC to carry out its responsibilities.
—Milton Levenson
Menlo Park, Calif.

SIR: It seems the greenhouse effect split the environmentalists on nuclear power. They presumed a direct link between economic growth and environmental degradation. This is back-

wards. Nations with adequate electricity are the ones with better environmental records.
—A. David Rossin
Los Altos Hills, Calif.

SIR: How many near-accidents didn't we hear about?
—Catherine P. Jones
Brewster, Mass.

Buy now, pay later

SIR: An investor taking your advice to buy Mexican stocks today *(Fact and Comment, June 11)* almost certainly faces a currency devaluation later this year. The "market oriented" policies of Mexico are almost entirely a fiction for overseas consumption. Privatization has still not reached most large, inefficient state industries.

Mexican stocks have been a good investment over the past 12 months, but the highest real returns have come from the government's T bills that pay 45% annual rates and more. An estimated $7 billion current account deficit this year virtually ensures a devaluation when the accrued interest on the $55 billion debt exhausts the available "flight capital."
—Christopher Whalen
Senior Vice President
The Whalen Company, Inc.
Washington, D.C.

Not me

SIR: Re "Marion Gilliam's two faces" *(Apr. 2)*. I have never sold an oil and gas partnership. To the best of my knowledge, I was never an officer or director of a company that sold an oil and gas partnership during my tenure. I have never received any notice of a cease and desist order from any state for selling an oil and gas partnership.
—David M. Klausmeyer
Houston, Tex.

Singapore sting

SIR: Caspar Weinberger says that Singapore's Prime Minister Lee believes our involvement in Vietnam kept communism out of Singapore *(Commentary, June 11)*. I resent having the democracy of the U.S. linked up in any fashion to the hypothetical democracy of Singapore. People have no civil rights there. Lee is not a leader of his people, he is a military dilettante.
—Laurie J. Harper
Milwaukie, Ore.

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"With all thy getting get understanding"

Fact and Comment

By Malcolm S. Forbes Jr., Editor-in-Chief

HOW TO SAVE GORBACHEV

Tell him to take a lead from West Germany's always underestimated Chancellor Helmut Kohl.

Against the stern advice of his central bankers and almost all economists, Kohl provided East Germans with a fantastically favorable exchange rate for their otherwise worthless marks. Kohl instinctively realized that a good rate would make the formerly communist rump state's transition to capitalism significantly easier because people wouldn't be impoverished and demoralized at the start of the process. The ratio would energize the East Germans. Kohl's move was brilliantly right economically, politically and morally.

Wide World Photos

Kohl: *Gorbachev's savior*

Gorbachev doesn't have the deutsche mark, but he does have almost $30 billion of gold reserves that could be put to use in the same manner—making the worthless ruble valuable again.

Economists, Western and Soviet, bleat that only by changing the Empire's economy can the ruble be made hard. They have it backwards. The economy can't function without a currency that people can use and trust.

The Soviets should issue gold-backed ruble bonds. The barbarous relic could be deposited in a Western bank for the life of the debt to give the collateral credibility. Following the German example, Moscow could give a ruble/dollar ratio of, say, 4-to-1, instead of the black market rate of 30-to-1. With no debtors other than the state, the deflation would be painless. Bread and other food prices needn't shoot up. Soviet morale and energy would pick up markedly as people realized that their govenment was truly committed to establishing and maintaining a hard ruble.

With his new popularity, Gorbachev could bring in meaningful free-market reforms, if he were so inclined.

GREENLINING OUR INNER CITIES

Housing Secretary Jack Kemp is a refreshing, exciting ray of sunshine into the doom and gloom surrounding America's inner cities today—rampant crime, growing teenage pregnancies, widespread drug abuse, broken families, high unemployment.

He recently gave a speech that outlines steps which could do for our cities what the Marshall Plan did for Europe more than 40 years ago. The most amazing part of his approach is that it will end up increasing government revenues rather than draining them.

B Bauer Picture Group

Kemp: *Cities' savior*

Conservative Kemp recognizes that the U.S. now has two economies. One, where most of us are today, is capitalist, market-oriented and entrepreneurial. It's an economy enjoying its longest peacetime expansion.

But there is a second economy that is in many respects similar to Eastern Europe's or a Third World socialist country's. As Kemp points out, "This economy has a virtual absence of economic incentive and rewards." Out of a desire to help the poor, it has managed to punish almost every form of productive behavior. Thus, the highest effective tax rates in the country are paid by "welfare moth-

ers or unemployed fathers who take a job and then lose all their welfare benefits." One sees similar perversities in education and housing.

What to do? Kemp has outlined an eight-point proposal that is sound, simple and sensible. For starters, slash the capital gains tax nationwide and eliminate it altogether in our inner cities. "That would greenline our inner city neighborhoods," says Kemp, who provides persuasive evidence that a low or zero rate would create many new businesses. He also advocates significantly boosting personal exemptions in the tax code, now only $2,000, and expanding the earned income tax credit, which will sharply reduce the punitive tax rate on welfarers taking jobs.

He also has proposals for giving public housing tenants responsibility for managing their buildings, for enabling them to buy their own homes and making it easier for them to choose where they wish to live via housing vouchers and certificates. Other parts of his plan would improve education through vouchers and tuition tax credits and would help first-time home buyers.

By seizing on and fleshing out Kemp's ideas, the Republican Party could take away one of the last shreds of Democratic clothing—the idea that Democrats care more for struggling people than does the GOP.

More important, these proposals would be a powerful force for turning our two economies into one.

THE TAX REVOLT IS ALIVE AND WELL

Voters in the recent California primary narrowly approved a referendum doubling the state's gasoline tax. Pundits quickly concluded that people's resistance to higher taxes has abated.

TAX REVOLT FADES AS CALIFORNIANS VOTE AN INCREASE

— *New York Times*

Nonsense.

Anyone who has recently visited the nation's most populous state can testify to its increasingly clogged highways. The tax receipts are specifically earmarked for highway expansion and maintenance.

Only under such special circumstances will voters concur with a tax boost. If that increased levy had been for general revenues, it would have been resoundingly defeated.

Politicos on all levels may wish it otherwise, but the majority of American voters are not yet convinced they are undertaxed.

HOME RUN BY HANK GREENBERG

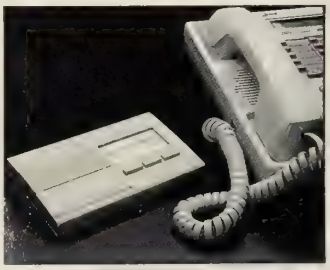
American International Group Chairman M.R. "Hank" Greenberg has come up with a first-rate idea for speeding up the cleaning up of hazardous waste sites.

Despite a kitty of billions of dollars, the pace of detoxifying these dumps has been sluggish since Congress created the Superfund program ten years ago. The problem, as you might have guessed, is litigation. The Environmental Protection Agency has to decide who's responsible for the hazardous site and then attempt to raise funds from those parties to get back the cost of the cleanup. Naturally, such an approach creates a morass of lawsuits.

Greenberg proposes creating a new environmental fund that would eliminate the need to establish liability at each site, thereby letting the EPA concentrate on purifying the dumps. The money would be raised by imposing a modest assessment on insurance premiums. Lawyers won't like it, but we should worry more about getting rid of the mess than about who created it.

NO NEED TO TOLERATE TELEPHONE STRANGERS

A Pennsylvania court recently outlawed Caller ID, a device that allows you to see who is calling you on the telephone. Caller ID is now available in most of New Jersey, Maryland and several other states.



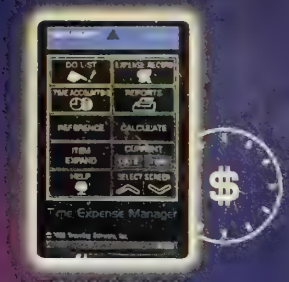
The Keystone tribunal ruled that this service was an invasion of privacy because the identity of the caller would be revealed to the person called. Are these judges serious?

Just as you want to know who is knocking on your door, so, too, should you have the right to know who is calling you on the phone. In New Jersey this service has been credited with cutting in half the number of obscene phone calls.

Of course, there are down sides. No longer will an errant husband be able to call home from his girlfriend's apartment to say that he's stuck at the office.

What about those who want to keep their numbers unlisted? (In fact, Caller ID has been available since 1988 to major companies for their 800 and 900 lines.) Keeping your number out of the phone book keeps it away from most people you don't want to have it. The telephone company could certainly be required to provide call blocking under unique circumstances. Otherwise, obscene callers would be the first to get so-called ID blocking.

CITY GUIDE



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IT'S NOT JUST THE N
LATEST SETBACK FOR TI

Today, there are "safe" cars, luxury cars, performance cars, practical cars – a car for every niche, it seems, and a niche for every car.

Except at Saab, where we've always built cars to fit not niches but needs – the needs of human beings unwilling to settle for something one or more dimensions short of a complete car. And the newest Saab vividly illustrates the point.

INTRODUCING THE SAAB 9000S.

Powered by the largest engine Saab ever built, the 9000S is a true European sports sedan, one capable of running all day at triple-digit, test-track speeds. Yet that engine achieves stirring response not at the expense of efficiency, but because of it.

A computer-driven engine management system – aided by Saab's patented Direct Ignition System – ensures that combustion occurs at the optimum moment for both performance and efficiency. And its emission control system reduces exhaust pollutants beyond EPA requireme

The result is a performanc car uncompromised by the nee be environmentally responsible

THE ONLY
LARGE EUROPEAN IMPOR

The Saab 9000S will come pleasant surprise to those for wh cramped conditions are part of price you pay for sporty cars.

Its interior, according to *M Trend*, is "cavernous." In fact, it the only European import to m EPA specifications as a "Large" c

But in the 9000S, the intelli management of space extends v beyond the passenger compartm

Fold down the rear seat, and create a station-wagon-like 56.5 c of cargo space, enough to fit a six

*MSRP $25,495, excluding taxes, license, freight, dealer charges and options. Price subject to change. © 1990 Saab-Scania of America, Inc

EST SAAB. IT'S THE PIRIT OF COMPROMISE.

Giving you a sports sedan that become a wagon at will, but with- the performance lities wagons etimes impose.

SAFEST CAR ITS CLASS.

In the 9000S, precise rack-and- on steering, lock braking em and spir- new engine onsidered to fety compo- s. All are de- ed to give the driver the e and prowess to avoid accidents e first place.

But when the unavoidable occurs, the 9000S excels. Front and rear crumple zones absorb the force of impact, cushioning the steel safety cage. The driver's-side air bag and supplemental restraint systems cradle the passengers.

The result is vividly demonstrated in data compiled from over 250 insurance companies by the Highway Loss Data Institute. Its latest study ranks 9000-Series Saabs the safest cars in their class. Safer than Volvo or Mercedes-Benz.

SYMPHONIES VS. THINNER MELODIES.

Overall, the Saab 9000S is what one automotive editor called "a symphony on wheels...super-quick, impressively refined, exceptionally spacious, very comfy and flawlessly constructed."

In short, a car, not a compromise. And a "symphony" with a lower price of admission than the thinner melodies offered elsewhere.*

It also offers daily performances at your Saab dealer, where you're invited to experience the Saab 9000S through a test drive.

SAAB

WE DON'T MAKE COMPROMISES. WE MAKE SAABS.

Other Comments

Prime Export

At the general strike in Prague in late November [last year], Zdenek Janicek, a Czech brewery worker, climbed up on a platform, looked out at his audience and recited the following: "We hold these truths to be self-evident, that all men are created equal. . . ."

—*Life* magazine

Are We Listening?

I am not here to decry the fall of Rockefeller Center or Columbia Pictures or Firestone or Tiffany's . . . or all of Hawaii. What's done is done: Our people sold them off for the profit in the deals, and that's neither illegal nor immoral. . . . The Japanese don't act spontaneously: They do as they're told. While we mill around. What's worse, the malaise is more than economic. One of our guys, Steve Miller, was recently at an international banking meeting in Vienna. Here's his personal observation:

"I went for a long afternoon walk around central Vienna. It is a very clean and prosperous city with well-dressed people. There are miles of very classy shops. There are no slums, no drunks or druggies, no graffiti on the walls. I was suddenly struck by the reversal of our fortunes. I can't imagine spending an afternoon strolling the streets of Detroit or New York for pure pleasure."

How did we get to this state? We got complacent. We got self-serving. We lost the fire in our belly. It's time to get it back, before we become a second-class country. It would be tragic if we allowed that to happen just as so many things are coming our way and to our way of life. Communism and socialism have finally been exposed—after all these years, and for all the world to see—as inferior to freedom and to free enterprise. And it happened without bombs, invasions, mass bloodshed. The people figured it out for themselves! Our system, after all these years, has won!

But even as all of that is happening, we, the great believers in free enterprise, are having our pants removed, an inch at a time, by a centrally orchestrated, totally committed, economic aggressor. Why can't we grasp the truth of it? And get mad and fight back? Or don't we give a damn anymore?

Let's stop giving the farm away by default. Let's get a little worked up about it. Let's stop partying and finger-pointing and nay-saying and get ourselves in shape again.

—Bennett E. Bidwell, chairman, Chrysler Motors, to the Automotive News World Congress, Detroit

Keep up with the French

President Jefferson was one of our first connoisseurs. He died very much in debt. He blew his wad in building. He started Monticello, and then he went to France, where he saw the real thing. When he came back he tore down half of what he'd built, and rebuilt that lovely Palladian villa that we know and love. Some French snob, after visiting there, said he was the only American who knew how to put a civilized roof over his head.

—Christopher Forbes, Vice Chairman, Forbes, in *Hamptons Newspaper/Magazine*

Tom Meyer ©1990, United Features Syndicate, Inc.

Marxists-Leninists used to talk about their "permanent revolution," but as it turns out the only permanent revolution the world has ever seen is the American Revolution.

—Jack Kemp, Secretary of Housing & Urban Development

Conversation Ploy

In a final, desperate attempt to evoke a response from a lethargic dinner partner, Jerry Wadsworth queried: "Do you like string?"

—*Hodgepodge*, by J. Bryan III

Over the Wall

Four nurses and two doctors were reading the EKG as if it were a ticker tape. Then suddenly all six of them turned and came right for me. One doctor said, "Mr. King, you're having a heart attack." And it was then, as the medication was entering my system and the pain was beginning to slide back down that I began the process of reevaluating the way I'd been living my life.

I was 53 years old. For 33 years I'd smoked three packs a day, had eaten whatever I wanted—the richer the better—and had never exercised. Besides that, I have always been a classic type-A personality. Another way of putting that is to say that I'm the worst person to be stuck with in a traffic jam. I start pounding the wheel, honking the horn, looking for a way out. If I can't find a moving lane, I start climbing the walls, which isn't easy in an automobile.

—Larry King, *Tell It to the King*

Supporting the Arts

Dropping a fifty-dollar bill into the tambourine held out to her by a Salvation Army player, Tallulah Bankhead waved aside the man's thanks. "Don't bother to thank me. I know what a perfectly ghastly season it's been for you Spanish dancers."

—*The Little Brown Book of Anecdotes*, edited by Clifton Fadiman

"You'll never know how sweet freedom can be unless you've lost it for 8½ years."

EVERETT ALVAREZ, JR.
VIETNAM POW

Everett Alvarez, Jr. was starved, beaten and forced to endure unspeakable tortures.

His years of horror began in 1964 when the U.S. Navy plane he was piloting got shot down over the Gulf of Tonkin. For the next 8½ years he was a prisoner of war—the longest held in North Vietnam.

During those endless months he struggled to preserve his honor and his sense of self. And by his example inspired dozens of other POW's.

"When you're caged up in an alien land," relates Alvarez, "you begin to understand the essence of liberty, and what we have here in this country....

"The return to freedom was exhilarating. Everything I touched felt good. Everything I ate tasted good. Everything smelled so good. It was sweet beyond belief. Now, I wake up every day and, no matter what I have to face, I look forward to it with anticipation. I'm here and able to choose, able to do, able to act as a free individual."

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FICHE

150 Year Old Technology Weds Silicon Valley's Most Glamorous Star.

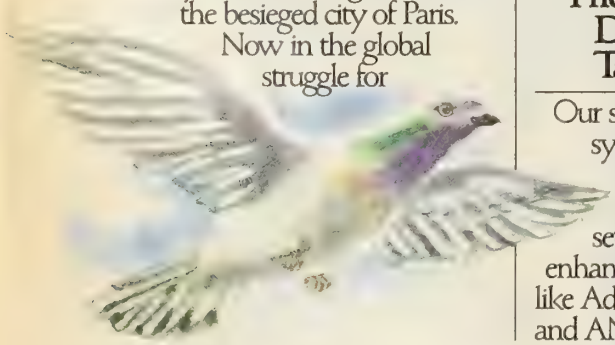
Chances are, our idea of a fiche and your idea of a fiche are oceans apart.

If you think of microfiche as a musty medium relegated to the basement archives, then you need to dust off your view of what's happening at Anacomp.

With nine separate microprocessors in attendance, Anacomp recently married the old reliable microfiche to the most glamorous graphics capabilities that today's computer chips can muster in a dearly beloved new system called the DatagraphiX XFP 2000.™ Microfiche doomsayers have doubtless been amazed by the festive reception.

In 1871, Micrographics Flew At The Speed Of A Pigeon. Now It Flies At The Speed Of Light.

Back in the Franco-Prussian war, the French used carrier pigeons to carry micro-messages out of the besieged city of Paris. Now in the global struggle for corporate advantage, images will soon be networked in our latest fiche-based system across the office, across town, across the world–at light speed.



You Can Put A Whole Library In A File Cabinet.

This wondrous new micrographics system has spawned equally wondrous storage fiche we call "Wonder Fiche." Wonder Fiche have all the archival advantages of space and paper savings that alone may pay for the cost of the system. But in addition, Wonder Fiche offer some clear advantages over other systems in terms of retrieval and reproduction.

The Wonder Fiche Digests Data Faster Because It Takes Ferocious Bytes.

Our system is a software-driven system, which is designed to double the throughput of competitive micrographics setups. Speed and productivity are enhanced. And with special features like Advanced Function Indexing™ and ANATRIEVE,™ sorting and

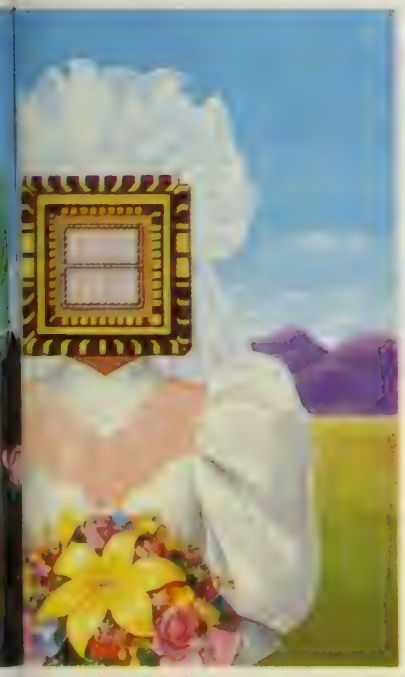
retrieval of microfiche have become virtually automatic.

We Not Only Manage You Images, We Enhance You Corporate Image As Wel

Anacomp's XFP 2000 is the on COM system designed to incorpo new graphics capabilities into its "Advanced Function Platform."

This enables Wonder Fiche to replicate forms and documents wi exactly the same graphics of the o nal. Capabilities include your choic multiple fonts, forms, signatures ar logotypes. Invoices and statements which have the "branded" and

CHIPS.



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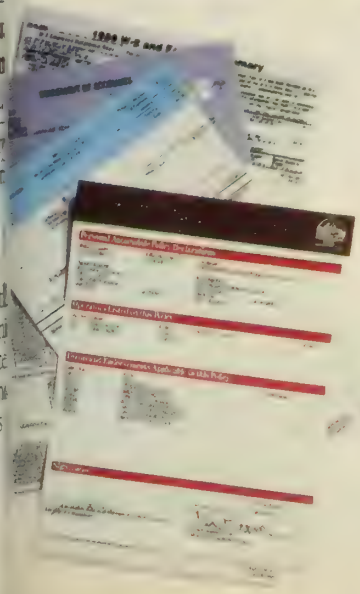
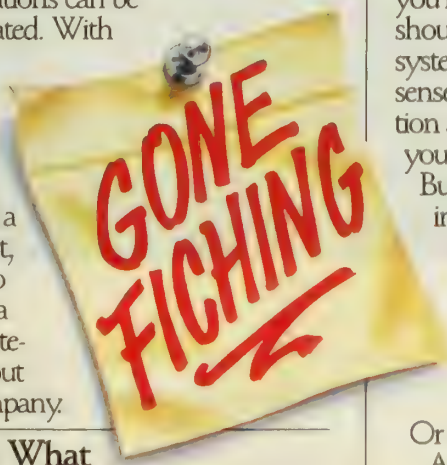
ut with raw alphanumeric data



of sales transactions. Visualizations of insurance claim forms, bank statements, and other industry-specific representations can be easily created. With the XFP 2000, every time you send out a copy of a document, you'll also send out a strong statement about your company.



It's What More And More Corporate Giants Are Doing To Shrink Their Paper Storage Problems.

Remember those people who predicted the computer would turn us into "the paperless society"? They're now drowning in their own predictions. Small wonder, at Anacomp, fiche are doing swimmingly well. As the inventor, innovator and industry leader in the micrographics field, our Wonder Fiche are performing miracles for more and more major corporations. Virtually all of the 1,000 largest corporations in America have a relationship with us.

It Ain't The Same Old Fiche Story.

If your company would like to reduce the paper mountain that stands between you and your corporate goals, you need Anacomp. But whether you should own and operate your own systems – or whether it makes more sense for us to handle your information and image management for you through an Anacomp Service Bureau – is a question best answered in person. So for more information, write J. Mark Woods, Chief Operating Officer, Executive Vice President, Anacomp, Inc., One Buckhead Plaza, 3060 Peachtree Road, N.W., Suite 1700, Atlanta, Georgia 30305. Or simply call 404-262-2667.

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Commentary
on Events at Home and Abroad

By Caspar W. Weinberger, Publisher

BRITISH ECONOMISTS STILL FOR SOCIALISM

London, June 1990—Economists—at least, British economists—may be among our most self-destructive professions. A recent survey titled "British Economic Opinion: Survey of 1,000 Economists" shows that most still believe the old conventional wisdom now being rejected almost daily by Eastern Europe's old socialist economies, and rejected over ten years ago by Margaret Thatcher and Ronald Reagan.

Here are a few of the findings of the survey:

- 75% said that *increasing* government spending is better for the economy than cutting taxes.
- Big majorities favor increasing — at least holding level — government spending.
- Big majorities also favor "positive action" by the government to redistribute income.
- Only a small majority opposes using the 1970s-style wage and price controls to halt inflation, although even the Labor Party now opposes such controls.
- Most of the economists feel that privatization by itself does nothing to improve efficiency and reduce costs.

Indeed, the results of this 1990 survey show that few, if any, British economists have changed their minds since the 1981 letter of 364 British economists to the London *Times* predicting that Mrs. Thatcher's policies and the espousal of monetarism would lead to economic and social disaster. That letter was sent to the paper just a few weeks before the British economy began its climb out of the deep recession into which it had been plunged by the old economic conventional wisdom of the 1960s and 1970s.

The Cambridge professor who organized that letter is unrepentant. While "faith in the use of the market has probably increased," one, of course, should not hesitate to "tame markets when they produce results which are not in the public interest." Presumably, this means that an end to depression, the improved standard of living, higher employment, and lower inflation which Mrs. Thatcher's policies have provided since 1980 "are not in the public interest."

One of the oddest features of the survey is that it showed that all the dramatic rejections of controlled, planned economics in, among other countries, Poland, Czechoslovakia and East Germany have had virtually no effect on the thinking of the British economists.

Even in the Soviet Union, the very citadel of socialist economics, there have been several welcome signs of movement toward an economy run by free markets rather than a planned economy run by an all-powerful state. In view of this, one of Mr. Gorbachev's most puzzling statements is his call for a "controlled market economy." Such language is explainable only in political terms: the program of a man seeking votes of both warring viewpoints.

Not surprisingly, the survey showed that business economists—those whose opinions help guide businesses—are happier with Mrs. Thatcher's revolution than are academic economists.

Graham Mather, director of the Institute of Economic Affairs, which conducted the survey, said the majority opinions have very little support in the outside world. "Britain's economists are trapped in the conventional wisdom of two or three decades ago," he said. Sir Alan Walters, former economic adviser to the prime minister, summed it up most succinctly: "The best run economies are usually those where the views of economists are ignored."

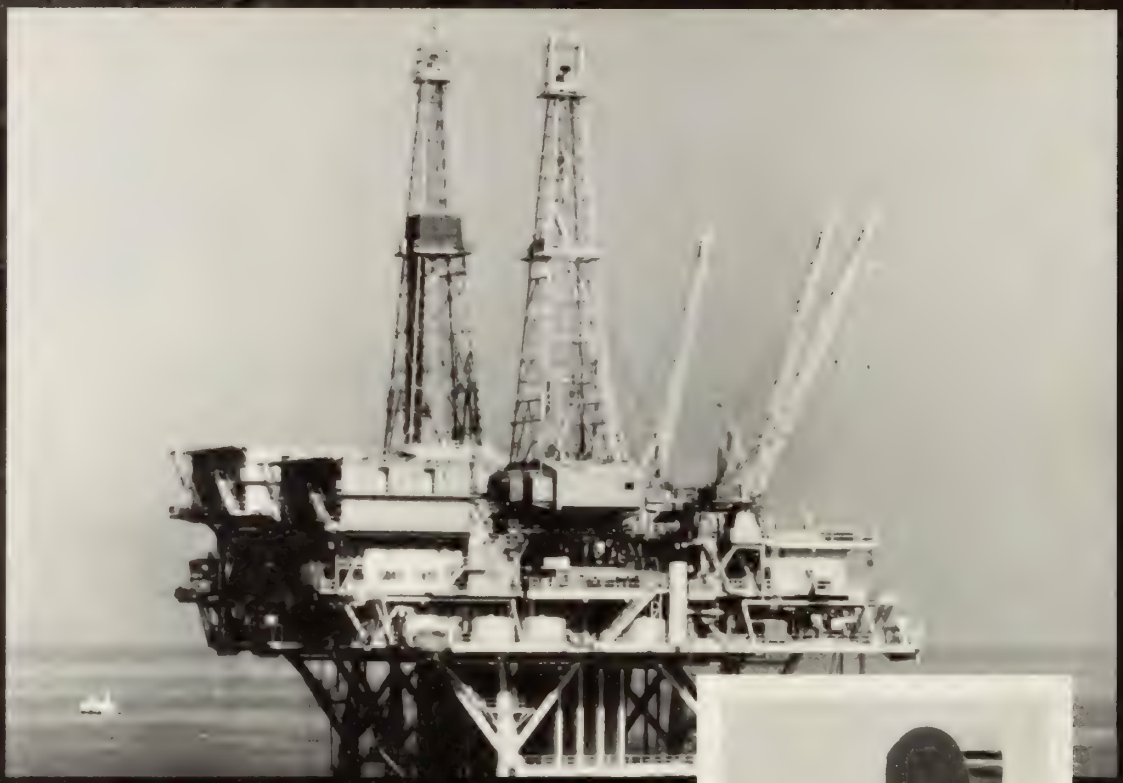
Another recent poll in England shows that, while 75% of some 1,500 people surveyed agree that debt is a bad thing and that, if people cannot save the money to buy what they want, they should go without, nevertheless more that 66% of these same people are "happy" to borrow from banks or run well behind on credit-card payments.

This poll also disclosed considerable confusion over the definition of "debt." Many do not consider a home mortgage to be a debt, and people also speak of their "credit" rather than their "debt."

All of this perhaps explains why in England consumer spending is still high, even though inflation, despite some real reductions, is still high enough to squeeze down disposable income.

* * *

For those who still think that 1992 and the European Common Market means only a common market and not an attempt to go further, consider this: A committee of the European Parliament demands that all member countries give all dogs unlimited rights to unhindered travel.



Diamond Settings that Last

Drilling a deep hole oil well in the ocean floor may be the toughest environment in which any diamond ever finds itself.

The drill bits used by offshore drillers are made of diamonds, one of the hardest materials known to man. But what kind of setting would you use for such a gem? The best setting manufacturers in the world use a surprisingly small, amazingly tough cylindrical stud produced by Fansteel Hydro Carbide. This stud — which measures one inch in height and one half inch in diameter — is made of Tungsten Carbide, which is itself one of the hardest of man-made materials.

It takes a lot to hold a bit in place while it works around the clock to cut through the ocean floor. It takes engineering ingenuity, metallurgical know-how, and uncompromising manufacturing standards. It takes much more than a metal former . . . it takes a diamond setter. Fansteel Hydro Carbide; another reason it will pay you to know more about us.

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Edited by Howard Banks

IS THE RECESSION IN MANUFACTURING OVER?

Output and new orders have rebounded

To judge from some early returns, manufacturing in the U.S. seems to be emerging from the leanest period it has had this economic recovery.

The influential National Association of Purchasing Managers' survey for May produced an overall index of 50.7—anything over 50 indicates a generally expanding manufacturing economy. This followed a 50.2 index in April, which reversed 11 straight months of an overall index below 50.

The government's official industrial production index also shows a generally improving trend since February, helped by a rebound in auto production in the U.S., by both Detroit's big three (which face labor negotiations next fall) and the foreign-owned manufacturers. New manufacturing orders are also up, for the fourth consecutive month, reports the purchasing managers survey.

Most industrial sectors share in the uptick

Chemicals, pharmaceuticals and oil refining continue their long-running healthy growth. So do suppliers of materials used in road construction and repair. Demand for basic industrial materials, like primary metals and metal fabrication, and even wood, is surprisingly strong.

Demand for investment goods, both here and abroad, has resulted in a steady growth of around 4.5% for nonelectrical machinery output. Fueled by falling relative prices, by far the best overall performance is the 11% growth in output over a year ago in computers and telecommunications equipment.

Defense suppliers face a downturn because of budget hurdles, but it will be less painful—this year—than often predicted. Meanwhile, massive new orders for jet airliners still pour in (Korean Air was the latest, with a $4 billion order for Boeing).

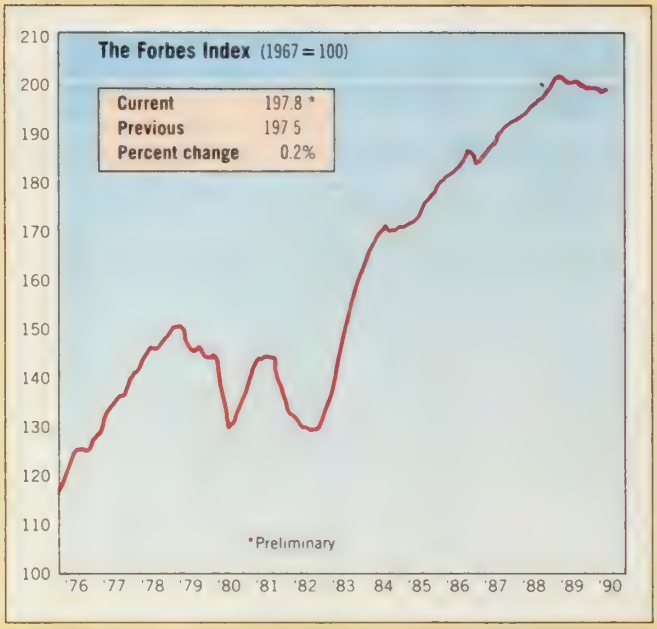
There are weak spots. The once-buoyant paper industry, for instance, is off the boil. Slow overall economic growth has cut into demand for linerboard and for corrugated packaging; their prices have been dropping since February. Demand for printing paper is also down because of the general cutback in advertising.

The best news is a rise in exports

Despite rising demand, price inflation of industrial materials continues to moderate. Finished goods prices in May were rising at a 3.1% annual rate, down from around 5% earlier in the year. The prices of intermediate materials are static, and basic materials have fallen for four months. Falling oil prices should continue to ease fears that inflation may take off.

Perhaps the best future prospect is in exports. Manufactured exports have been tending upward for the past six months and imports, especially of autos, downward. And capital goods exports have also been rising, notably to Western Europe, where the U.S. has enjoyed an overall merchandise trade surplus for the past three months.

The Forbes Index



Consumers are consuming less. May retail sales were off 0.7% from April. On an inflation-adjusted basis, retail sales are actually 0.4% lower than they were 12 months ago. Consumer installment credit is up, but only by a modest 1.2% so far this year. One reason for the sluggish growth in consumer lending is the weakness in auto sales. Industrial production crept up 0.6% in May while the Consumer Price Index rose 0.2%. The preliminary Forbes Index shows a 0.2% gain in May, but this figure is likely to change once the remaining components are reported.

Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	10.0%
Auto sales year to date vs. 1989[1]	Ward's Automotive	–6.0%
Index of leading indicators April vs. March	Dept of Commerce	–0.2%
Trade balance last 12 months ending April 1990	Dept of Commerce	–$93 bil
Producer price index May vs. 1989[2]	Dept of Labor	3.1%
GNP 1st quarter vs. 4th—annualized growth	Dept of Commerce	1.3%
NBER Experimental Recession Index[3]	Natl Bureau of Economic Research	6.0%

[1]U.S - based manufacturers, excludes imports, as of 6/10/90. [2]Finished goods. [3]April 1990.

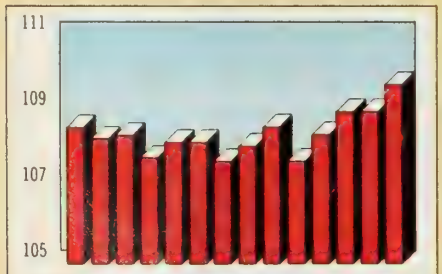
Index Components

The Forbes Index is a measure of U.S economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

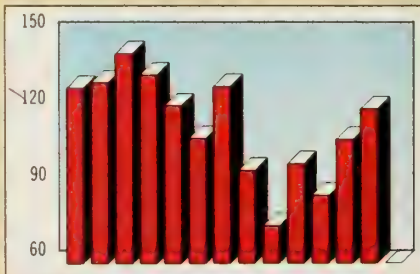
To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

Consumer price indexes (1982-84 average = 100) all urban consumers, unadjusted (Dept. of Labor)

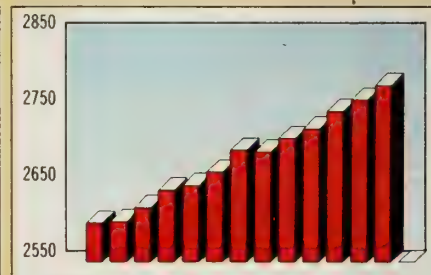
Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)



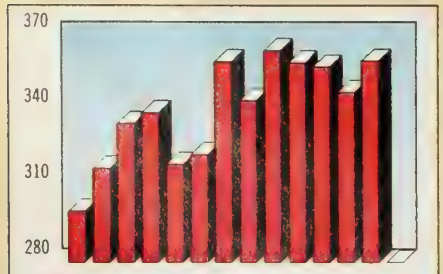
Industrial production index (1987 = 100) seasonally adjusted (Federal Reserve)



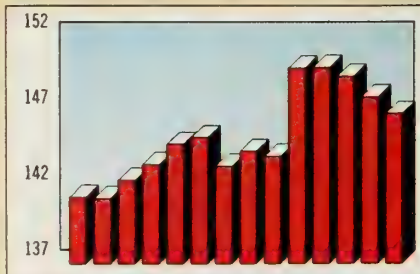
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



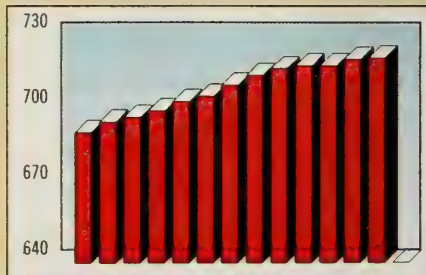
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



New unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)



Retail sales ($billions) seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

A M J J A S O N D J F M A M
1989 1990

A M J J A S O N D J F M A M
1989 1990

A M J J A S O N D J F M A M
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1990. Bally Manufacturing Corporation

from the desk of
ROBERT E. MULLANE

To: James Sullivan
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Inside the cabin, an environment of refined luxury and elegance surrounds you. Highly polished burl walnut graces the fascia, console and door waist rails. Hand-tailored leather adorns the seats and arm and power-adjustable lumbar supports ensure co for even the lengthiest tours. Jaguar's 80-watt s system delivers near concert hall quality sound plays through four acoustically matched speakers.

Under the elegantly sloped hood lies Jaguar's head cam V-12 engine. This 5.3-liter powerplant

A BLENDING OF ART AN

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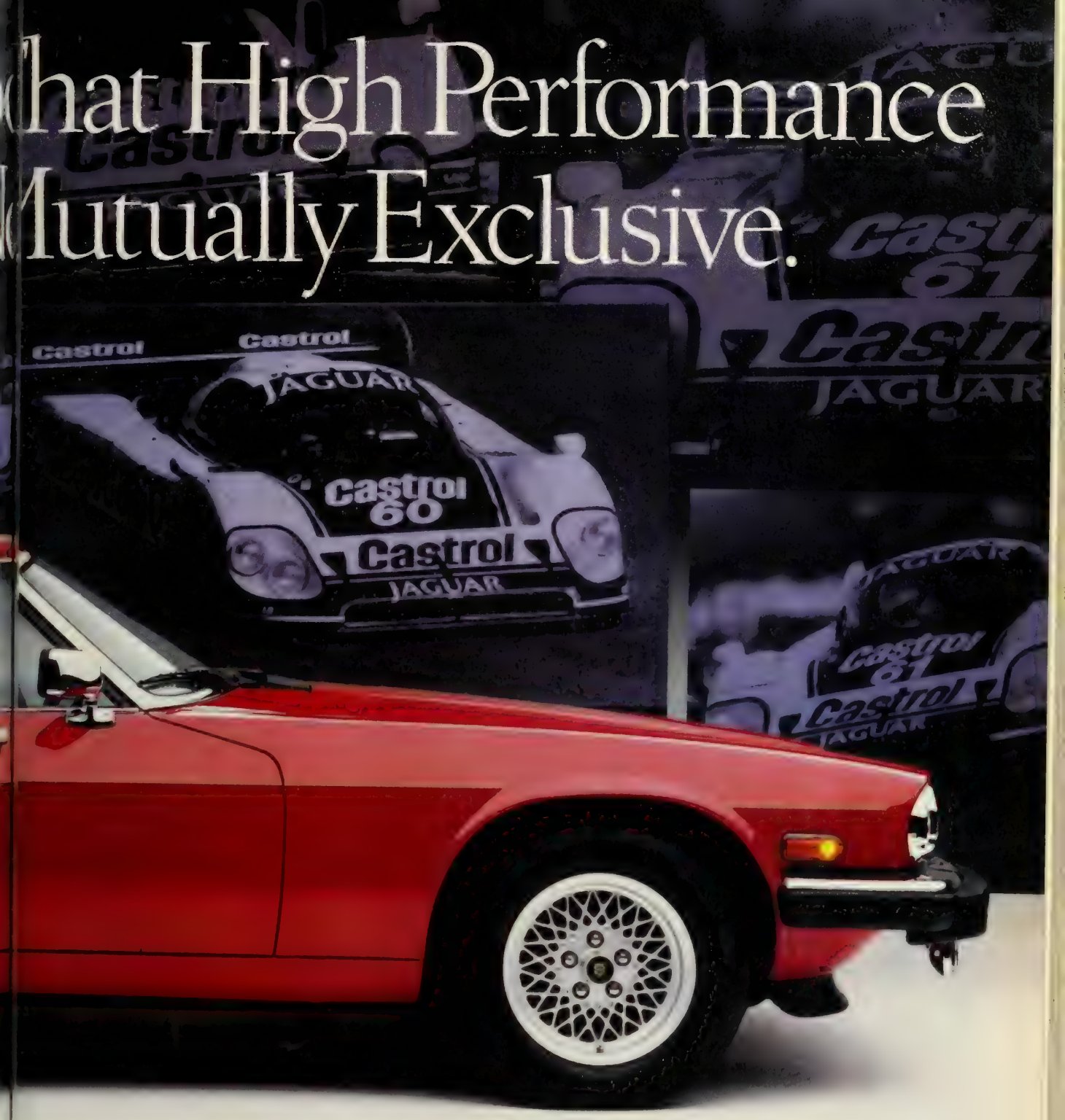

ressive for its smoothness and refinement as for the horsepower it generates. Modified for racing, it ered Jaguar to first and second place in the grueling Hours of Daytona this year.

Jaguar's four-wheel, fully independent suspension em provides a smooth, surefooted ride. And for ident stopping, even on slick surfaces, the XJ-S coupe is equipped with four-wheel disc brakes and a Teves advanced anti-lock (ABS) braking system.

In an era when exhilarating performance seems to preclude a tradition of luxury, the XJ-S coupe provides a most welcome exception.

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ACHINE

JAGUAR

In the face of an industry glut, Marriott Corp. continues building new hotels. Why isn't management more worried?

Don't stop now

Seth Resnick

Marriott Corp. Chief Executive Officer J. W. (Bill) Marriott Jr.

"The more product you have out there, the stronger your position is going to become."

By John H. Taylor

AT A TIME when hotel occupancy rates average 64%—four percentage points below the break-even rate—J.W. (Bill) Marriott Jr. is continuing an expansion program that will nearly double the number of his hotels by the mid-1990s from the current 558.

But faced with a growing glut of hotel rooms and shaky real estate prices, even Bill Marriott is quietly cutting back. Marriott Corp. will slow the pace of construction next year, cutting capital expenditures from $1.5 billion in 1990 to less than $1 billion in 1991. Last month, without fanfare, Marriott laid off almost 20% of the staff responsible for designing new hotels.

Marriott, the Bethesda, Md.-based lodging and contract services company, produced spectacular 15% compounded annual earnings per share growth through the 1980s by aggressively building new hotels and then selling them at a profit to investors, most of them in limited partnerships. In those deals, Marriott acted as general partner and took back management contracts, in the process building its annual revenues to last year's $7.5 billion.

But these days, with discounting of room rates common and tax incentives for owning moneylosing hotels eliminated, investors interested in hotel partnerships are scarcer. As of last month, a new $83 million Marriott limited partnership offering underwritten by Merrill Lynch was only 70% complete, some seven months after its inception. Through mid-June Marriott had sold only $650 million of the $2 billion in properties it hoped to sell this year. More than $350 million of that $650 million came from the sale of the Roy Rogers fast-food chain, not hotels.

Marriott badly needs more asset sales to pay for construction already under way. Operating cash flow last year was slightly more than $500 million, but Marriott spent some $1.4 billion on capital expenditures, making up the difference by selling $1.1 billion worth of properties.

Now, because of the sorry state of the hotel business generally, several of Marriott's existing partnerships have become a cash drain. Recently released financial documents for its ten public limited partnerships reveal that only five of the partnerships generated enough cash flow from operations last year to service the partnership's debt. When cash flow falls short, Marriott makes cash advances to the partnerships in accordance with loan guarantees it made to the banks or prior agreements with the partners.

Marriott doesn't always get its money back. Last year Marriott wrote off $77 million in loans and advances it made to partnerships. The writeoff was one reason Marriott earnings fell from $232 million, or $1.95 a share, in 1988, to $177 million, or $1.58 a share, last year.

Another cloud hangs over its future profit and loss statements: A company like Marriott is permitted by accounting rules to carry new hotels as "assets held for sale" on its balance sheet for only one year. After that, the interest and other costs related to the operation of the hotels have to be expensed rather than capitalized. Hotels rarely make money during the first three years of operations. If a large number of properties, as seems possible, could not be sold, part of Marriott's earnings would be wiped out.

Even if Marriott sells all 88 hotels it built last year, it will have little time to celebrate. Nearly 100 hotels are scheduled for completion this year, with about 60 more on the way in 1991, even with the cutbacks.

Marriott Chief Financial Officer William J. Shaw says not to worry: The Japanese will buy, along with Europeans and American pension funds. But the Japanese, worried by the real estate picture and somewhat alarmed at all the criticism of their investments here, seem to be holding back. "The Japanese are going to be more cautious about U.S. investments and expect greater returns," says J. Paul DeMyer, national director of hospitality consulting at Kenneth Leventhal & Co. in Los Angeles. "Right now, the sizzle is in Europe."

All this building plus an aggressive stock buyback program has increased Marriott's debt-to-equity ratio from 1.7-to-1 at the end of 1986 to a recent 7.4-to-1. Concerned by this trend, Moody's and Standard & Poor's recently urged Marriott to curtail the repurchase program. Marriott acquiesced. This will likely further depress Marriott's stock, trading recently at 25 a share, since 30% of the trading volume in the first quarter came from repurchases.

A more cautious company might have stopped new construction entirely under the circumstances, but Bill Marriott, while willing to trim schedules, isn't willing to stop building new hotels in the face of what he seems to feel is just a temporary glut. "I believe very strongly that you build a competitive advantage through distribution," says a confident Marriott. "The more product you have out there, the stronger your position is going to become." Or to rephrase a cliché: When the going gets tough, the tough keep going. ■

Lisa Berg

Chief Financial Officer William J. Shaw
Will the Japanese, Europeans and U.S. pension funds really bail him out?

Among the spoils from a huge patent infringement case, Baker Hughes Inc. got Dresser Inc.'s stake in Titan Services. It now wants to be rid of it.

Hot potato?

Robert Wisnewski

By James R. Norman

IF ALL GOES AS PLANNED, Baker Hughes Inc., the Houston-based oilfield drill-bit maker, will tap the public markets in mid-July for about $200 million by selling 80% of one of its units, BJ Services Co.

On the surface, BJ looks like a little gem. It earned $5.5 million last year on $317 million in revenues, even though the U.S. drilling rig count bumps along at less than 25% of its 1981 peak. With imports again creeping up to about 50% of the nation's oil use, another unexpected interruption in foreign supplies would trigger another domestic drilling boom. To some, that scenario seems like a good bet. If so, companies like BJ would benefit enormously.

But there's a cloud on BJ's Texas horizon, in the form of a little-noticed treble damage suit against the company that goes to trial in a Midland, Tex. federal courtroom July 23. This is no penny-ante suit. It seeks some $400 million in damages and goes beyond your typical spitting match between litigious Texans. It promises to be a real shoot-out, replete with whistleblowers, nasty charges all around and the allegation of a scam that would rank as one of the more outrageous to surface in Texas in recent years.

Baker Hughes got what is now BJ Services two years ago in partial settlement of a massive patent infringement case it won against Dresser Industries, Inc. In 1985 Dresser put its Titan Services unit into a joint venture with Baker Hughes, called BJ-Titan Services Co., in which Baker Hughes had a 72% interest. Dresser gave up its 28% stake to Baker Hughes in 1988 along with $23 million cash to settle the suit over drill-bit design.

The plaintiff now is Parker & Parsley Petroleum Co., the nation's largest sponsor of public drilling partnerships. P&P says it was systematically shortchanged in the 1980s by BJ-Titan on the purchase of materials used to boost production of oil and gas in 541 West Texas wells. In a process known as fracturing, sand and chemicals are used to prop open cracks made in underground rocks to free up oil and gas flows. P&P claims it got only half the materials it paid for, and is out some $20 million. Add at least $100 million for lost production, treble the damages—the suit's being brought under the federal racketeering statute that allows for that—and pretty soon you're talking real money.

Defendants BJ Services, Baker Hughes and Dresser deny any grand scheme to shortchange P&P, and

blame the alleged cheating on one crooked manager. BJ has reserved what looks to be at most $16 million for any claim—an amount that indicates it doesn't think the P&P allegations carry much weight. To reassure BJ investors, Baker Hughes has indemnified BJ from any higher loss if P&P wins. In its 10-K, Baker Hughes says it "expects no material adverse effect" from the lawsuit. Moreover, Baker Hughes claims it can go after Dresser if it loses.

What you won't find in BJ's preliminary stock prospectus is that P&P has a smoking gun. Portions of sworn statements that are in the public record include testimony from a former Titan manager who says he ran the shortchanging scam for years with the knowledge and the blessing of his higher-ups at Dresser. Statements of at least five other co-workers, some of whom are still employed at BJ Services, also confirm the cheating.

The manager, Gary (Zeke) Lancaster, says BJ-Titan consistently delivered less material to the P&P job sites than P&P was billed for. With the result that Lancaster's district was Titan's most profitable, despite rampant industry price-cutting at a time when oil prices were falling. The depositions indicate the scam ended only in 1988 when Lancaster was demoted for allegedly submitting false invoices to Dresser covering, among other things, repairs to his girlfriend's car. Rather than take the demotion, Lancaster quit and turned whistle-blower.

Lancaster claims he shortchanged other unidentified customers besides P&P. Since it's only indemnified against the P&P claims, BJ could be clobbered by other suits as well, if more specific allegations come out at trial. And there's no indemnity against a falloff in BJ's market share if P&P's claims scare off other customers.

Baker Hughes insists it's getting out now for "strategic reasons": It wants to be number one or number two in all its businesses. BJ, though a good little company, is third in its field behind Halliburton Co. and Dowell Schlumberger. There's no panic to sell over the P&P suit, insists Richard K. Gordon, a First Boston managing director who is working on the deal: "We've done our due diligence. We wouldn't be taking something public and face a major judgment. Baker Hughes will take any residual risk" in the P&P suit.

In the P&P suit. But if P&P were to win, other customers might step forward and claim damages. In that case, BJ's new majority shareholders could be in for an unwelcome surprise. ■

Politicians are determined to expand health benefits for the elderly and poor. But they fear voters won't want to pay for them. So they're expanding quietly and making the states pay much of the bill.

Backdoor health care

By Janet Novack

A STRAIGHTFORWARD politician who wants to increase medical benefits for the elderly or poor would ask voters to pay more taxes to fund the extra spending. That's what Congress did in 1988 when it expanded the federal Medicare program for the elderly to cover the cost of catastrophic illnesses. It slapped a tax on senior citizens to pay for the expansion. But the elderly rebelled and Congress repealed the tax and the new Medicare benefits.

Yet congressmen intent upon expanding health benefits are undeterred. They're slipping in changes via the back door in hopes that taxpayers won't notice until it's too late. And they're sticking the already pressed states with a big piece of the bill.

Little by little, politicians like Representative Henry Waxman (D–Calif.) and Senator Lloyd Bentsen (D–Tex.) have been expanding Medicaid. A part of the country's welfare system, Medicaid is a joint program between the federal government and participating states: The states pick up around 44% of the cost, on average; the federal government pays the balance. Thus, for every extra dollar of Medicaid benefits the feds can mandate, they need pay only 56 cents. As Gerald Miller, executive director of the National Association of State Budget Officers, puts it: "There's a slow movement toward national health insurance, and the states are being forced to pay half the bill."

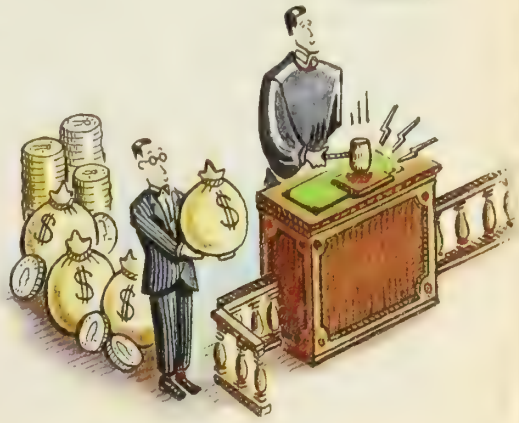
So when Congress repealed the Medicare expansion last year, it left intact provisions of the same law mandating that Medicaid cover nursing home bills for more of the middle class. It also forced Medicaid to pay old poor people's Medicare premiums and the share of their doctor and hospital bills Medicare doesn't now pay.

Moreover, in October the states will have to start paying nursing homes (which already receive 45% of their revenue from Medicaid) more to cover the costs of new federally mandated nursing home standards. John Rodriguez, director of California's $6.9 billion (fiscal 1990) Medicaid program, says these changes alone will cost California's Medicaid program at least $400 million a year. He says he may well not have the $400 million and may try to delay adopting the new standards.

During the early 1980s many states gave Medicaid benefits only to the desperately poor and set low fees for hospitals and doctors treating these patients. Now the trend is toward higher fees and more patients.

In June the U.S. Supreme Court ruled health care providers can sue the states in federal court for higher Medicaid reimbursements. The decision upheld what has been common practice for some time; nursing homes have been going to court since

Michael Sloan



the 1970s and, more recently, hospitals have been suing and winning big. In 1988, for example, three Colorado hospitals sued for higher Medicaid reimbursements; the state lost and is negotiating a settlement that will raise Medicaid payments to all Colorado hospitals by about 40%. Federal courts have also found Pennsylvania's and Michigan's Medicaid hospital payment plans too cheap.

Meanwhile, Congress is busily increasing the number of people who qualify for Medicaid benefits and, in some cases, ordering higher Medicaid payments to doctors. In the early 1980s only children whose families received welfare routinely got Medicaid. But Congress has been gradually severing the links between welfare and Medicaid. As of April it required states to cover pregnant women and children up to the age of 6 with family incomes up to 133% of the poverty line (that is up to $14,045 for a family of three). And if California's Representative Waxman, who pushed earlier expansions, has his way, states will have to cover pregnant women and infants whose incomes come to 185% of the poverty line. Under another Waxman proposal, states would eventually be forced to cover all older children with incomes up to the poverty line, adding more than 2.5 million Medicaid recipients.

How expensive is this creeping national health care program? Very. Texas Medicaid Director Donald Kelley predicts Medicaid spending during Texas' next two-year budget period (September 1991 to September 1993) will hit $5 billion, up from about $3 billion this cycle. But the increase could be even larger: As many as 40% of Texans eligible for Medicaid still haven't signed up, Kelley warns.

For fiscal 1990 Medicaid cost the nation almost $72 billion. The National Association of State Budget Officers' Miller expects Medicaid spending to climb at least 17% in fiscal 1991. That's an increase of more than $12 billion, or additional costs to the states of almost $5.5 billion, making Medicaid the fastest-growing part of states' budgets. In part as a result of Medicaid's growth, Steven Gold, director of the Center for the Study of the States, predicts states will raise taxes by at least $10 billion next year, making 1991 "one of the biggest years ever for state tax increases."

Food for thought: The states participate voluntarily in Medicaid, and when they do, they must comply with all federal mandates. But any state could drop out of the program if it so wished. Currently no one wants or expects that to happen. But, says Florida Medicaid Director Gary Clarke, whose budget has grown an average of 26% a year for four years in a row: "Medicaid is exploding. If things keep going this way, one of these days one of the states is going to wake up and say 'I can't take it anymore. You can have this program back.'" ■

So disastrous have most oil and gas partnerships been the past few years and so fed up are their investors that now may be an opportune time to invest.

Rummaging through the oil patch

By Howard Rudnitsky

DESPITE THE RECENT weakness of oil prices, some smart investors foresee a rebound in the oil patch over the next few years. Surprisingly, limited partnerships may be one of the best ways to play.

Yes, partnerships, the very vehicles that burned their holders badly when oil prices took a steep slide a few years back. Example: Most oil and gas partnerships that were promoted aggressively in the early and mid-1980s by Petro-Lewis and Damson Oil eventually left investors empty-handed.

Nor have the clouds passed entirely from the business. Struggling under a heavy debt load, former corporate raider T. Boone Pickens recently had to eliminate dividends to holders in his Mesa Limited Partnership. Mesa doesn't expect to make a payout until gas prices improve significantly, and

Bargains?

What's the attraction of oil and gas partnerships these days? For one thing, they often sell at discounts to their estimated net asset values. But bear in mind, these are not blue-chip investments—asset values are often imprecise, and dividends can be eliminated upon conversion to corporate form.

MLP or Company	Where traded	Market capitalization ($mil)	Price range 1989-90* high	low	Recent price	Estimated NAV per share	% discount to NAV	Dividend yield (%)
Devon Energy Corp	ASE	$137	14¾	4⅝	12	$20.00	40%	none
Diamond Shamrock Offshore Partners	NYSE	236	13⅛	3⅝	4¾	7.00	32	9%
Edisto Resources Corp	ASE	213	18¾	13	17¼	24.00	28	none
Hallwood Energy Partners	ASE	93	17½	8⅞†	9⅜	24.00	61	17‡
Mesa Limited Partnership	NYSE	791	13½	4¼	4⅝	11.00	58	none
Mission Resource Partners	ASE	32	20¼	3⅜	7¼	13.00	44	8
Parker & Parsley Development LP	ASE	90	18⅞	11⅝	15¾	32.00	51	11
Samson Energy LP	ASE	64	17⅛	13⅞	14⅝	24.00	40	11

*Jan. 1, 1989 to mid-June, 1990. †Adjusted for 1-for-20 reverse split. ‡Dividend guaranteed only through the first quarter of 1991.

Sources: Gaines, Berland Inc.; Forbes

that could be a few years away.

Yet so many oil and gas partnerships have been beaten down so low that—for the better-run partnerships, at least—it looks like the next move may be upward. Alan Gaines, president of New York-based oil and gas investment firm Gaines, Berland Inc., points out that most small and medium-size oil and gas companies are trading at prices equal to or slightly exceeding their net asset values. Some partnerships, by contrast, can be had for far less than their net asset value *(see table)*.

Among the partnership plays Gaines likes are Parker & Parsley Development Partners and Diamond Shamrock Offshore Partners. The former is publicly traded on the American Stock Exchange, the latter on the New York Stock Exchange. Last year Parker & Parsley expanded by acquiring a general partner with sizable oil and gas units, from now-bankrupt Southmark Corp. Parker & Parsley units are currently selling at $15.75, well below their estimated net asset value of $32.

Many people who have already invested in partnerships are facing a nettlesome decision: What to do if your partnership is merged with several other partnerships and "rolled up" into a master limited partnership? Although investors sometimes benefit from such roll-ups, the Securities & Exchange Commission right now is said to be looking into various roll-ups to see whether holders are being taken for a ride. Another dilemma: What to do when a partnership eliminates its payout and makes plans to convert itself into a corporation.

Whether your partnership is converting or being rolled up, don't panic, counsels Joseph Tovey, managing partner of Tovey & Co., a New York-based investment banking firm specializing in energy. The worst time to sell is probably immediately after a roll-up or a conversion because unit prices are already greatly deflated. Unless a partnership's oil and gas properties are badly depleted or an investor is convinced that energy prices will fall sharply, the smartest thing to do is hold on, Tovey says.

In fact, some cases have proven that conversion to corporate ownership can work nicely for investors. One reason: Earnings and cash flow that would have been paid out in large dividends can be retained inside the company to fund exploration and development of reserves. In the long run, that might very well pay off—especially if oil or gas prices begin to move up again.

About two years ago, for example, Denver-based Apache Petroleum merged its master limited partnership into Apache Corp., the New York Stock Exchange-traded company. Limited partners received common stock in Apache Corp. Within 18 months, Apache's shares more than doubled.

Likewise, Oklahoma City-based Devon Energy benefited from a conversion two years ago. Today Devon Energy Corp.'s Amex-listed shares trade at 12, up from less than 5 at the conversion. Gaines says Apache is almost fully valued; but Devon, he adds, appears to be substantially undervalued and has a first-rate management team in place.

Another outfit to watch, in Gaines' opinion, is Edisto Resources, an Amex-traded company. Late last year Edisto took control of NRM Energy Partners in a share swap. Now trading at 17¼, Edisto may have a net asset value per share of about $24, Gaines figures. He bases this judgment on Edisto's "solid base of offshore oil and gas properties in the Gulf of Mexico."

For those who want to buy into a roll-up or partnership that is converting to a corporation, Joe Tovey says experience has taught him to wait until the conversion has been made and then buy the common stock or the partnership units of the surviving entity. In other words, let the professional investors take the guesswork out of the proper relative valuations. "The best time to buy," says Tovey, "may be a month or so after the switch."

But Tovey and Gaines alike caution that investors should make especially sure that a master limited partnership—even one that has recently converted into a corporation—is run by people with a good track record and a good reputation. Also, Gaines and Tovey advise, check to see that the general partner has a significant portion of his or her net worth invested in the partnership or company. Using these guidelines, Tovey says he is impressed by Devon Energy Corp. and by Samson Energy, a master limited partnership with reserves in Oklahoma. Tovey believes Samson's current price of 14⅝ is only about 60% of the value of its underlying assets.

Another interesting play, at its current depressed levels, is Mesa Limited Partners, Gaines says. He figures Mesa, now selling at 4⅝ per unit, has a net asset value of $11 to $12. "Whatever you may think of Boone Pickens," says Gaines, "he does have some very good operating people, and Mesa has a sizable reserve base to exploit." Oil and gas partnerships may be down, but a number of them are far from out. ■

The savings and loan industry and U.S. taxpayers are the big losers in Houston real estate. But for most losers there are winners—like Maxwell Drever.

How the vultures do it

By Suzanne Loeffelholz

IF YOU WANT to know where some of the $200 billion lost by savings and loans went, stop by Monticello on Cranbrook. Located in north Houston, Monticello on Cranbrook is a 244-unit garden apartment complex built in 1983. The building's condition belies its age. Balconies droop half a foot between water-rotted supports that serve as home to termites and ants.

Until January Monticello was owned by First Federal Savings & Loan Association of Largo, Fla. The thrift had financed this faraway project and repossessed it from the developers when they defaulted. In an attempt both cynical and pathetic to improve the building's resale value, the thrift spent $85,000 to disguise the decay with new trim. Then First Federal of Largo went into federal receivership, and Monticello was sold.

Monticello's new owner is a partnership controlled by Drever Partners. Operating from Houston, Drever Partners is a real estate vulture fund. It specializes in buying apartment buildings from owners who have no choice but to sell.

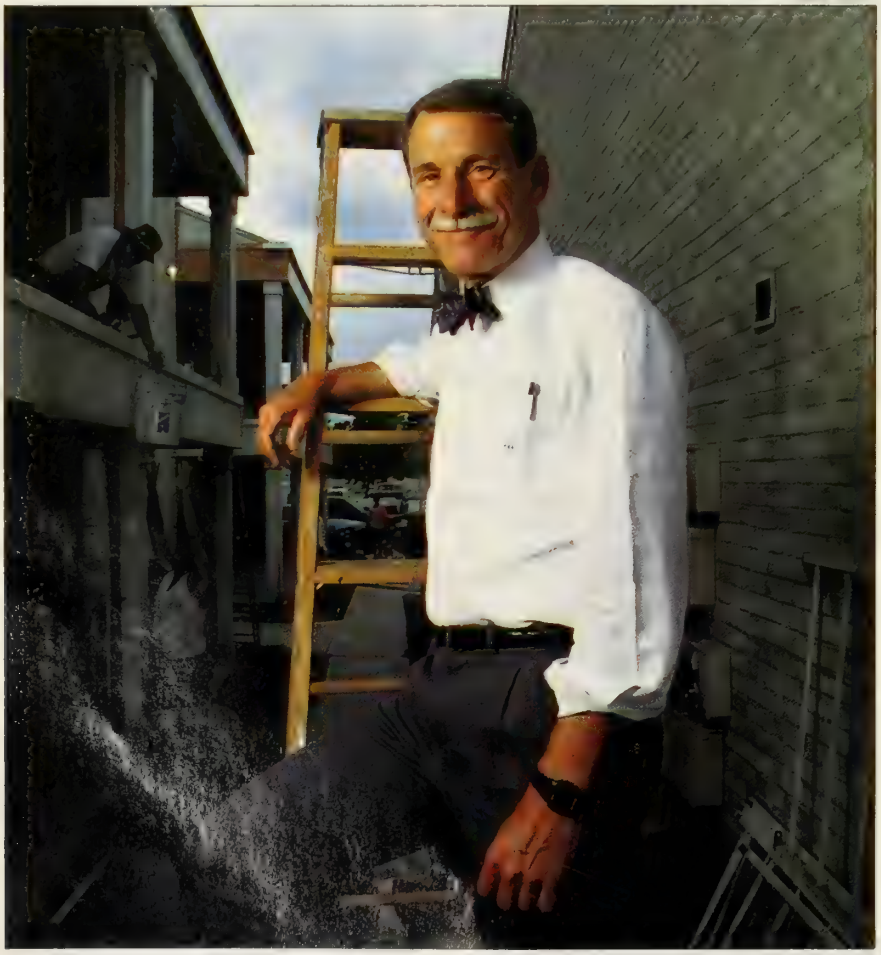
These vultures have the wisdom of owls. Maxwell Drever, chief executive of the partnership, quickly uncovered the rotten supports before he bought Monticello, and used them to knock the purchase price down to $4 million, or $19 a square foot. That's one-third the national average selling price for garden apartments.

On a recent 92-degree day in Houston, Drever Partners' construction workers were scurrying about replacing shingles, installing new carpets and removing refrigerators so overtaken by the putrefying rot of old food that they had to go straight to the dump. The workers were also strengthening the balcony supports at a cost of $123,000, not much more than the previous owner had wasted on the trim.

In the past three years Drever, 49, has acquired 24 apartment complexes in Houston, mostly from insolvent thrifts or developers who were about to be foreclosed on. On average, he has paid half the original construction costs of the properties, which are between five and ten years old. With that kind of discount from construction cost going for him, Drever can afford to add some of the little details that tenants like. Often that means adding fiberglass architectural frills, gables with phony windows, imitation widow's walks or brass "Penthouse" plaques on third-floor walk-ups. Drever says he has been able to boost rent collections on average by 36% on Houston properties he has owned a year or more. He says the average occupancy rate in his Houston apartments is 89%, and climbing.

Drever has spent his career scavenging at the bottom of real estate markets. As a young man he began buying apartments in Seattle in 1971, when Boeing was in a recession and the city was written off by most investors. Today Seattle shows up on everybody's list of favorite places to live and work. In 1980 Drever liquidated his early partnerships, earning,

Laura Rubin



Maxwell Drever, chief executive of Drever Partners
Tenants just love those fiberglass window frills.

he says, an average 32% annual return for outside investors.

Drever is both a bargain hunter and a market timer. Besides cheap prices, he says he's attracted by a single indicator: industrial leasing. "When industrial leasing rises, jobs are created," explains Drever. "And for every four jobs created, one apartment is rented." The formula has worked for Drever in Seattle, Denver, Columbus, Tampa and Memphis. In each of those cities he bought apartment complexes during real estate recessions, held them for about five years, sold them and moved on to the next depressed market. This migratory pattern brought him to Houston in 1987, when he saw that industrial leasing was perking up. It is up 28% since the end of that year.

Underlying its $250 million (cost) Houston portfolio, Drever Partners has about $40 million of equity invested. Drever's limited partners include the Yale University Endowment Fund and Compton Capital. Drever himself has most of his own net worth in the partnership.

The government's Resolution Trust Corp. is likely to sell about $100 billion worth of real estate over the next several years. Drever believes this liquidation could be his career's greatest opportunity. To exploit it, he hopes to raise another $200 million in equity capital. While he still thinks Houston is the most attractive market, he is bidding in Austin and Dallas, too.

Drever Partners covers its overhead by taking a fee of 1% of gross assets annually. The real payoff is back-ended: Drever's firm also gets a third of any capital gains when a property is sold. (Most apartment complexes are held by separate investment partnerships.) The back-end part of the remuneration could be rich indeed. One year ago, for example, Drever bought Colony Oaks, a 162-unit garden apartment complex near Houston's NASA Center. He paid $4.2 million, or $25 a square foot. He plans to spend another $1.3 million fixing it up. Against his investors' $700,000 in equity, Drever assumed $3.5 million in debt at an average cost of 8%. Operating expenses are a fairly high $435,000 a year, including property taxes, maintenance and free car washes and birthday cards for residents. The frills evidently pay off. Drever has increased the rent take 10% to $777,000 a year, and that's before the improvements are in. Thus, operating income on a $4.2 million piece of capital is $342,000 a year, or 8%—not too bad when a bank is willing to supply most of the capital at a cost of only 8%. Drever reckons that he could sell Colony Oaks now for $6 million, or as much as $8 million after renovations.

One stumbling block in Drever's planned expansion is the federal government's intention to sell its repossessed real estate in $500 million bulk lots. That would be too big a bite for Drever, even if he raises all the equity money he is now looking for. Not surprisingly, he hopes the Resolution Trust Corp. will both abandon this bulk-lot concept and make buying easier. "If the government financed buyers, it could sell those loans and make money," says Drever from his car phone as his van splashes through a heavy Houston rainstorm to his recently purchased Riverwalk Apartments, another scene of thrift speculation gone awry.

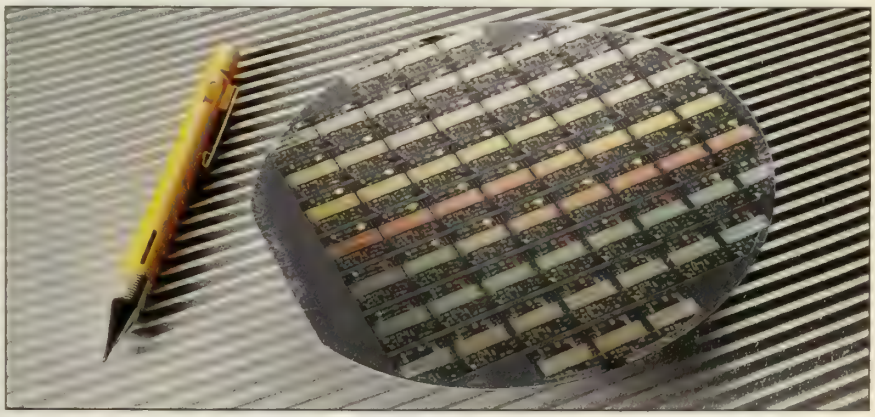
The rain fails to cool the air, which is thick with steam when Drever arrives at Winterset to choose the new paint. He likes the darker taupe paint and the crescent-shaped architraves (window moldings) rather than the triangular ones. As he tours Riverwalk, he is dismayed to find that even after the rainstorm, its artificial creek is dry. He tells the building's manager to recement the creek and pump it full of water. Such details help bring in the tenants. Thus is Max Drever getting fat on the thrift industry's mistakes. ■

Under Chairman Jerry Junkins, Texas Instruments' management is attacking the chipmaker's well-known problems. Is Junkins' optimism justified this time?

Unfulfilled promise

By Toni Mack

FEW COMPANIES have less lived up to their potential than Texas Instruments. The Dallas-based company pioneered the microchip, yet has rarely proved able to turn its research prowess into commercial success. In recent years sales growth has stagnated. Profits have dropped sharply and will probably come to around $145 million on revenues of $6.8 billion this year. By contrast, competitors Motorola and Intel Corp. are growing robustly. Consider this: If Texas Instruments' net margin was merely half of Intel's, it would earn nearly $500 million this year.



Texas Instruments' new 4-megabit DRAMs on a wafer
On the market earlier than its other chips but still late.

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ONE OF THE MOST IMPORTANT ATHLETIC COMPETITIONS ANYWHERE has no losers. It's called Special Olympics. Every year, some 24,500 athletes with mental retardation compete in the California Special Olympics. These Special Olympians strive for much more than ribbons and medals. They're experiencing independence. They're developing confidence. And they're challenging their own limitations.

"BEFORE they even FINISH a race, they've WON MY heart."

BETH HENNING
California Special Olympics volunteer

Best of all, they're all winners. But ask any of the 30,000 Special Olympics volunteers and they'll say they're big winners, too.

"It's almost impossible to put into words the joy you feel," says Beth Henning. "There's a sense of closeness being with these athletes. I was just swept away with happiness."

Beth volunteered for the first time last summer. And she was one of the first to sign up again this year. She couldn't help being moved by the joy, pride and love so evident during the Games.

Volunteers serve as coaches, keep times and scores, hand out awards and greet every single competitor at the finish line.

With a handshake, a hug or a high-five.

This is a moment everyone remembers long after the day has ended.

We're proud that Beth works in the Market Research Department of our Lexus division.

She's one of the many Toyota people who give their time and affection to Special Olympics.

And to these athletes, even a little of someone's time and affection can mean the difference between just running a race and breaking through barriers.

TOYOTA

INVESTING IN THE INDIVIDUAL

Charles Thatcher

Texas Instruments Chairman Jerry Junkins
"There's still no substitute for execution. . . . I think it will happen."

What is Texas Instruments' problem? The company's chairman, Jerry Junkins, readily acknowledges that Texas Instruments was late to market with its last three big memory chip products. That record, he says, must be reversed. Texas Instruments' customers are now getting their first look at samples of a new microchip, a 4-megabit DRAM capable of storing 107 pages of dense text. No, Texas Instruments is not first: Japan's Hitachi Ltd. and Toshiba Corp. launched their 4-megabit chips last fall. Nonetheless, Junkins takes some justifiable pride in the fact that Texas Instruments is bringing out the new chip much more quickly than it has others.

There are other signs that Junkins is positioning the company well for the 1990s. He has, for example, committed to new manufacturing facilities to make 4-megabit DRAMs and other advanced chips; the capacity, to be completed by next year, will be in Italy, Taiwan and Japan, as well as TI's native Dallas. The expansion will quadruple the company's capacity to make chips with features smaller than one micron (one millionth of a meter, or about 1/70th the width of a human hair). This will be key as the industry packs more and more circuitry on a chip. Junkins has been able to finance more than $100 million worth of this expansion with advance payments from customers. Most of the rest of the money comes from low-cost government financing in Italy and joint venture partners in Taiwan and Japan. These and other moves are narrowing its Japanese competitors' cost of capital advantage, lowering TI's cost from 2.4 times the Japanese rate in the early 1980s to about 1.5 times now.

Will Texas Instruments' marketing people be able to sell what the new plants produce? William P. (Pat) Weber, president of TI's semiconductor group, says the company has been reorganizing its semiconductor management. Today, one person has the overall responsibility for manufacturing and marketing each chip product worldwide. There used to be one person for each market; this compounded communication and production problems. Weber adds that TI's research people now work more closely with the production people.

Intel and Motorola are doing well because neither company is dependent on commodity chip markets. Both focus on high value-added chips—particularly microprocessors—that are either distinctive or markedly faster and more sophisticated than their competitors'. Now Junkins, too, is trying to increase TI's production of noncommodity chips with higher margins and few competitors. These sorts of chips have grown from about 15% of TI's chip revenues when Junkins took over five years ago to 27% today. But mute the applause: In 1986 Junkins thought noncommodity chips would account for half of TI's microchip revenues by this year. "We're coming basically from a [commodity chip] background," Junkins explains, adding that it's taken time to shift TI's culture and resources toward differentiated products.

With its history of disappointing Wall Street's expectations, why does Texas Instruments, recently trading at 38¼, sell for nearly 30 times this year's likely earnings? Motorola and Intel sell for less than 20 times earnings. There are two answers. First, this year's likely earnings of $1.30 a share are abnormally low; priced in terms of its revenues, the company is far cheaper than Intel or Motorola.

Second, the Japanese patent office last year awarded Texas Instruments a patent on its 1958 invention of the integrated circuit—the so-called Kilby patent. This patent covers all integrated circuits made or used in Japan through the year 2001. No one knows how much this will mean to TI's bottom line, but in January the brokerage house Cowen & Co. estimated the windfall at between $77 million and $290 million (90 cents a share to $3.40 a share) in 1991 alone.

Junkins demurs when asked how much TI will earn from these royalties, but becomes enthusiastic when asked if the company is on the verge of a turnaround. "There's still no substitute for execution," says Junkins. "We'll have to see over the next year or so whether the promise is fulfilled. I think it will happen." ■

Strong Performance in 1989: Commerzbank group business volume advanced by 7.2% to DM 208.9 billion, fuelled by buoyant lending. With net income up 15.3% to DM 564 million, we again strengthened our financial base to the benefit of customers and shareholders. Reserves were raised by DM 281 million and equity capital, which has doubled over the last five years, soared DM 925 million to DM 6.6 billion, thus equipping us well for future growth.

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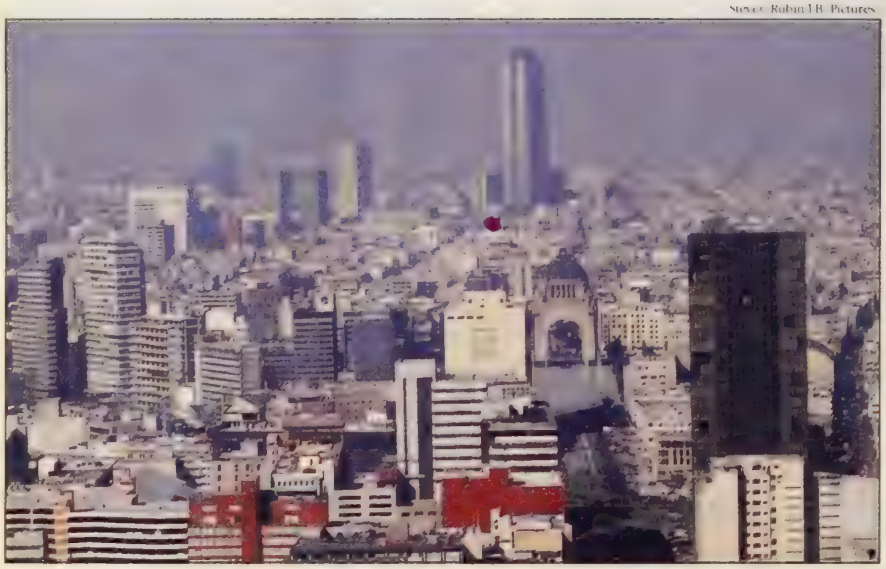
Forget Eastern Europe. The next great economic miracle will take place right on our borders. Mexico is on its way to becoming an economic powerhouse.

A revolution you can invest in

Steve Rubin/LB Pictures



Mexico City
No evidence of significant unemployment.

By David Goldman

MEXICO'S STOCK MARKET index has approximately doubled since July 1989, outperforming every other market in the world. Is the party over? Not by a long shot. By 1993 the Mexican market could well rise to four times its present level. Under President Carlos Salinas de Gortari, Mexico is set to repeat the success story of South Korea but on a far grander scale. Robert L. Bartley, editor of the *Wall Street Journal,* says he believes the Salinas team is the best in the world. So far as economics is concerned, the 88 million Mexicans will have far greater impact on the world of A.D. 2000 than will the 133 million citizens of Eastern Europe.

That President Salinas feels strong enough to talk with President Bush about a possible free trade zone with the U.S. speaks volumes about his determination and ability to break with the sterile economic nationalism that has held his country back.

On May 14 Mexico's Congress voted a constitutional amendment to privatize banking. Future historians may pinpoint this date as the day that an undisputed national consensus emerged in favor of what I shall call Salinastroika—a peaceful revolution promising changes as profound as those of 1910-17 in Mexico's political and economic life. Eastern Europe's path to political maturity may be shorter or longer than Mexico's, but it has just set out on the learning curve, while Mexico is heading up its sweep.

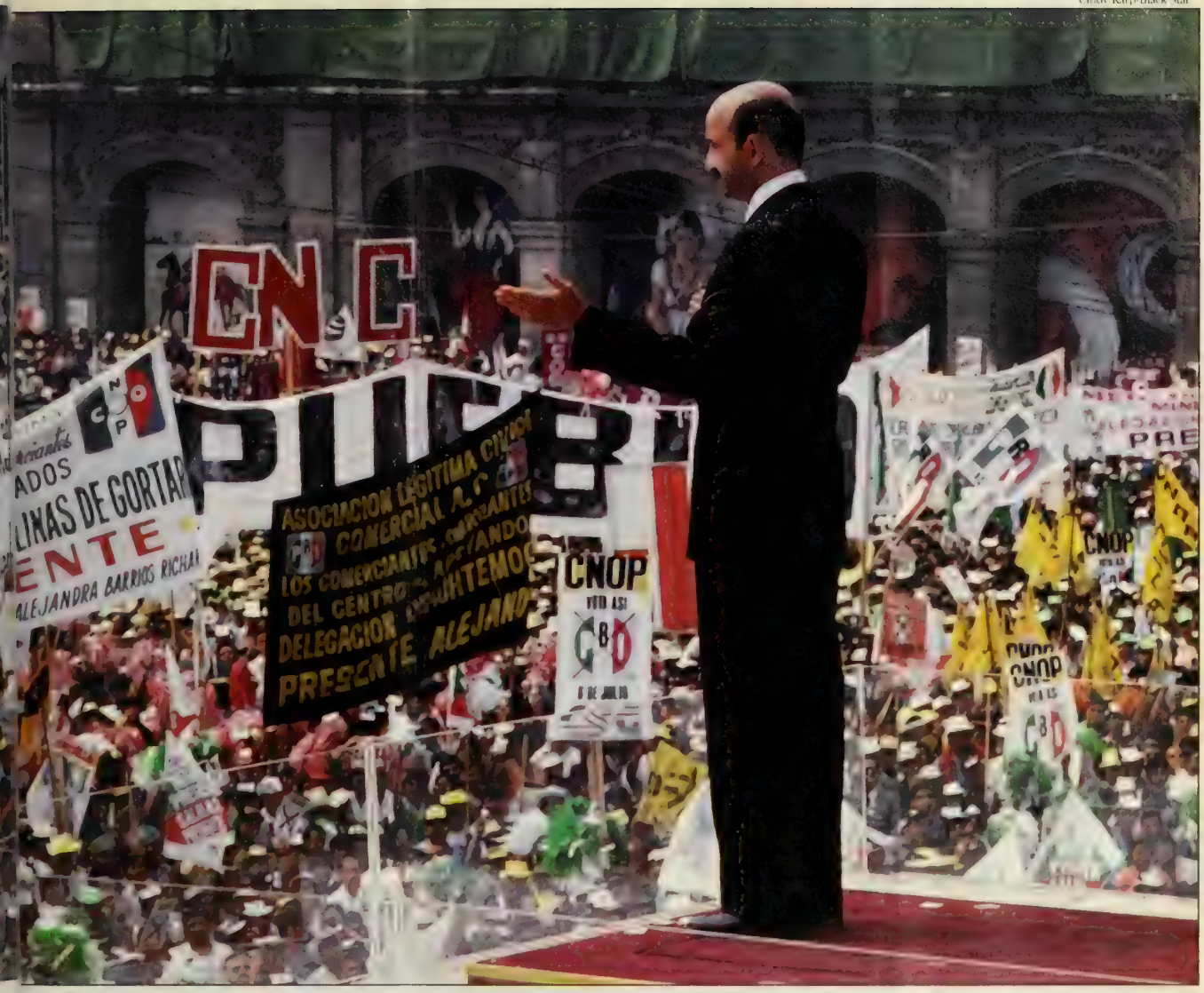
For U.S. business people and investors, Mexico is a far more interesting story this time than Eastern Europe is.

Mexico still has big problems, including the persistent 14% annual crawling-peg devaluation of the peso, and no one can predict when they will be solved. The pace of policy change during the past 12 months, though, provides cause for optimism. A senior Finance Ministry official told me, "The only thing that is not negotiable is the virginity of the Virgin of Guadalupe [Mexico's patron saint]. That stays. Everything else is on the table."

Already swept off the table is much of the agenda of Mexican statist economics. This includes bank nationalization, high tariffs, nontariff barriers, redistributionist tax policies, industrial regulation, state enterprises, and so on. A North American free trade zone is on the table for national debate, and there are hints that Mexico may even encourage some private oil exploration.

The most remarkable aspect of Mexico's ascent during the past two years is the way in which the supposedly insuperable problems of foreign debt and government deficits melted away, virtually unnoticed. Inflation has been brought to below 20% from over 150%, the peso is stable, foreign-

Cindy Karp/Black Star



Carlos Salinas de Gortari, President of Mexico
A Mexican success story to rival, perhaps surpass, that of South Korea?

exchange reserves are increasing, and the short-term Treasury bill rate is down to 34%—despite the fact that Mexico has received virtually no new loans from commercial banks.

What happened? Under Salinas' predecessor, International Monetary Fund-imposed austerity was tried and failed. Salinastroika is succeeding because it reduced government's role in the economy and helped restore international confidence in the Mexican economy. A swing of perhaps $10 billion in the current account between 1987 and 1989 was financed by inflows of private nonbank capital, with room to spare. With interest rates down to about a fifth of their 1987 peak level, the government can comfortably service the national debt, which absorbed 60% of federal spending in 1988. Mexico has demonstrated that it does not need bank financing (except for the usual short-term purposes), as long as it offers foreign and domestic capital opportunities to make money.

Mexico has found that it has no shortage of capital. To what extent the investment inflows represent repatriated flight capital or new investments by foreigners is irrelevant. The expectation of a drastic improvement in the tax and monetary environment was sufficient to attract ample capital to finance a substantial trade deficit. As the effects of the new policy environment translate into higher rates of return, capital will be waiting in line at border crossings to get in.

Perhaps the most important single factor weighed into these expectations has been the standing of President Salinas himself. In the July 1988 elections Salinas took a bare majority in a three-way race. To accusations of vote fraud, Salinas promised political reform, and made good on it. The July 1989 election of a National Action Party (PAN) candidate to the governorship of the state of Baja California broke the PRI's half-century monopoly on the state capitals, establishing the PAN as a loyal right opposition to Salinas. The leftist Revolutionary Democratic Party, still preaching protection and income redistribution, has floundered. Its leader, Cuauhtémoc Cárdenas, son of one of Mexico's most beloved past presidents, has found no means to block Salinas' initiatives. The president's political reform program, which establishes multipartisan election commissions, seems sure to pass Congress with the support of the right-of-center PAN. Most important, Salinas' big congressional majority for bank reprivatization shows that the president's man-

David Goldman is senior economist at Polyconomics, Inc. in Morristown, N.J. The article is adapted from a Polyconomics report, "Salinastroika: Investing in the Mexican Revolution," a summary of the book-length study "Mexico 2000."

date is secure.

The next step will be to bring above ground the underground economy, which has kept much of Mexican growth invisible. During the 1980s Mexico's labor force grew at a rate approaching 1 million per year, while real GDP (as counted by the government) barely changed. Yet no one can find evidence of significant unemployment outside of depressed rural areas, proving that the new entrants to the labor force found jobs. A Polyconomics study concluded that the official statistics underestimated the GDP by 25% by failing to allow for the huge amount of business done off the books. Officially, the economy grew by 3% in 1989, although there are indications that figure may have been larger.

All the unreported growth took place in small businesses—perhaps 1.5 million of them—which proliferated in the so-called informal economy. The casual traveler sees part of this, in the form of tens of thousands of street-corner businessmen selling everything from tacos to electronic goods. But the informal economy includes a great deal of manufacturing as well. Our favorite story involves the chemical company president who noticed that a grocery store in a Mexico City slum was one of his firm's best customers for resins. His curiosity piqued, he sent an employee to investigate. The store was packed floor-to-ceiling with bags of resin. Each day, residents of the slum would buy a bag at a time as feedstock for hand-operated plastic presses, for the manufacturing of toys and household goods. These, in turn, were marketed at traffic lights. Hong Kong has produced no entrepreneurs more ingenious than those of Netzahualcóyotl on the northern outskirts of Mexico City.

Micro-enterprises account for only part of unreported economic activity. High taxes and a capricious and corrupt bureaucracy have forced many medium-size businesses into subterfuges, most of which involve unreported sales. Until this year the Mexican tax system granted special status to "small businessmen," who paid taxes on a bimonthly basis to state government inspectors happy to accept small bribes in lieu of taxes. The disincentive to grow, i.e., to move from nearly tax-free status to a 35% tax rate, compounded by nightmarish amounts of paperwork, was staggering. Small businesses proliferated but remained mired in the informal economy, preferring hassle-free anonymity to government-harassed growth. Small businesses were exempt from breaking out value-added taxes on their invoices but could not sell their products to bigger companies that required receipts showing the VAT. Emerging companies could not issue stock without already showing a substantial balance sheet and offering a minimum issue of about $4 million. Thus much of Mexicans' economic vitality remained bottled up. Small companies lost growth prospects, Mexico lost economic growth, and the government lost tax revenues.

Nik Wheeler/Black Star

Cough-drop-wrapper parasols and Chrysler assembly line
Informal and formal economies.

Sergio Dorantes/Sygma

During the past year the Mexican government has taken dramatic steps to set things right, with a swiftness and resolve that the Eastern Europeans ought to emulate but probably won't. The government has already taken the following steps:

1) Reducing the top marginal tax rate to 35%, the latest in a series of gradual reductions, from 60% in 1986;

2) Abolishing the special tax status of small companies, a first step toward integrating them into the mainstream economy, so they may grow and combine into larger enterprises;

3) Abolishing similar special tax status for transportation and agricultural companies;

4) Throwing out a huge number of offensive regulations, notably most restrictions on foreign investment, transportation regulations, protection of the state petrochemical monopoly and so forth;

5) Eliminating most of the remaining nontariff barriers to trade, including domestic-content quotas for autos and electronics;

6) Selling off the majority of state industrial holdings (the big exception is and will remain Pemex, the nation

al oil company).

Other things will still need to be done. A large part of the remaining inflation rate derives from the approximately 14% per annum rate of devaluation of the peso. Here, administration policy is working at cross-purposes. Senior officials are still beguiled by fears of "overvaluation" of the peso for trade purposes, and pressured by industrial groups who believe they must sell cheap.

In order to advance to higher levels of economic growth, the Mexican government must make clear to its own citizens that it has repudiated the long-held policy of diluting their unit of account for apparent short-term convenience, and that it is committed to maintaining the integrity of the currency over the long haul. This assurance is necessary to ensure that the future reward of Mexicans' investment of their present labor and capital will be fair. The reluctance of the Mexican monetary authorities to end devaluation altogether has left inflation at a still unacceptable rate.

In spite of Salinastroika, foreigners are still barred from majority ownership of mining companies, and oil exploration, development, refining and retailing remain national monopolies.

Another injurious remnant of the bad old days has not been corrected, though, and until it is, the Salinas administration will have difficulty making other reforms fall into place. Income taxes are still far too high. The top marginal rate has come down to 35%, but it applies to annual income in excess of $7,000. In the U.S., a family earning $7,000 would pay no taxes at all. Thus the incentive for small proprietors to remain off the books, and, above all, to hire tax-free labor off the books, remains tremendous. That short-circuits the natural process of growth, in which the best small companies absorb their competition and become big companies, with accompanying economies of scale. Why? Because the tax structure forces businesses to remain small and, they hope, invisible. Mexico needs a drastic reform of tax brackets, combined with 100% indexation for the effects of inflation.

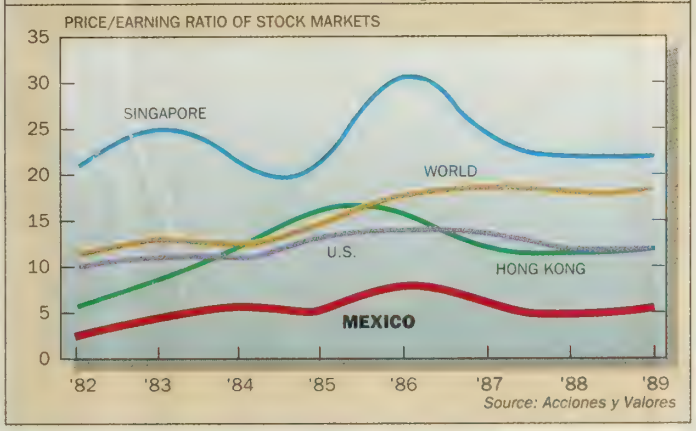
Mexico's real engine of growth is its growing population, industrious and canny enough to find work for nearly everyone under the worst conditions imaginable. The population is young; in 1985, two-fifths of all Mexicans were younger than 14 years of age. If the flood tide of new labor force entrants finds employment, as it did during the 1980s, Mexico's economic growth will be among the world's fastest during the coming decade.

The grand scale of this expansion will be matched by comparable gains in productivity. The low cost of Mexican labor will rapidly diminish as an investment incentive, in favor of the efficiency and trainability of Mexican workers. The country's standard of living will climb.

Where does one invest to take advantage of Salinastroika? Mexico's to-

Mexican market P/E ratio set to take off

As Mexico moves to a Singapore-like growth rate in the 1990s, the Mexican market's P/E ratio should approach 20. The market, at 8 times earnings, is a bargain.



Source: Acciones y Valores

Some interesting Mexican buys

The companies listed below are market leaders in their industries. Their stocks have already moved up, but they are still relatively cheap. The potential is there for further price increases.

Company/business	Ticker symbol	1989 sales (US $mil)*	Recent price	Trailing 12-month P/E	Price appreciation for 12 months ended May 31, 1990†
Teléfonos de Mexico‡/telephone services	TELMEX	$2,090	$1.80	12	237%
Grupo Industrial Alfa/steel & petrochemicals	ALFA	2,060	8.85	5	90
Cifra‡/retailing	CIFRA	1,460	1.00	11	129
Fomento Económico Mexicano/food & beverages	FEMSA	1,280	2.00	14	40
Desc Sociedad de Fomento Industrial/chemicals	DESC	1,170	5.60	8	49
Cemex/cement	CEMEX	1,057	4.40	12	34
Vitro/glass products	VITRO	900	15.40	8	25
Industrias Peñoles/mining metallurgy	PEÑOLES	800	1.30	6	13
Grupo Industrial Bimbo/food, beverages & tobacco	BIMBO	760	1.90	12	19
Grupo Industrial Minera Mexico/mining	GMEXICO	750	2.55	9	7
Kimberly Clark de Mexico/paper products	KIMBER	670	7.60	13	62
Cydsa/chemicals	CYDSASA	600	4.30	8	17
Grupo Condumex/electrical	CODUMEX	470	3.70	12	2
Tubos de Acero de Mexico‡/steel tubing	TAMSA	297	5.50	22	9
Teleindústria Ericsson/electrical	ERICSON	280	1.90	14	138

*Average exchange rate of 2,511 pesos to $1 was used for 1989 †Adjusted for inflation ‡Available in ADRs

Sources: Acciones y Valores, Estrategia Bursatil, Capital Group International

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tal equity market capitalization is approximately $35 billion, that is, $^1/_{100}$th the size of either New York or Tokyo's stock market. Even after rising sharply, it still has an average price/earnings multiple of less than ten. The chart at the top of page 51 makes clear just how great the growth potential is.

Mexico can duplicate or even better the experience of the Asian "tigers" during the 1980s. Mexico's growth rate should be at least 7%, the growth rate between 1960 and 1980, and it could exceed 10%.

The Mexican stock market has barely begun to discount the growth possibilities. Its capitalization should grow at least tenfold during the next five years merely in order to accommodate the capital requirements of growing companies, and the price/earnings ratio should rise toward the vicinity of 20.

During the next year or so, most of the action will center on the reprivatization of commercial banks nationalized by President López Portillo in September 1982, along with other public companies. Much more important than the privatization of government companies, though, will be the flood of new equity offerings by small aggressive firms seeking to become big. That is where real money will be made. It will take a year or two for the trickle to turn into a flood.

Now is the time for American investors and industrialists to factor into their plans the likelihood that in the decade ahead, Mexico, thanks to Salinastroika, could easily have the fastest-growing economy in the hemisphere. ■

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Opportunities

Things are tough in real estate these days, so business has never been better for property auctioneer Sheldon Good.

Going once, going twice...

By Ruth Simon

MORE THAN 300 prospective buyers crowd a ballroom in the North Shore Hilton in Skokie, Ill., all hoping to snap up a bargain.

On the auction block: 17 properties, ranging from a downtown Chicago loft building to three suburban town houses. Glossy information packets litter a table in the back. There's a cash bar in the hall. A two-piece band plays Sixties melodies.

Welcome to the world of real estate auctions. "It's like opening night," says auctioneer Sheldon Good, who's left his bronze Rolls-Royce in the hotel parking lot. He and two dozen staffers are spiffed up in their "auction uniforms," blue suits set off by red carnations. Properties tend to sell for 15% to 30% less than the last offering price. But Good doesn't mind. He'll still get his commission, typically 5% to 10% of the proceeds.

The curtain may be coming down on developers and bankers from Massachusetts to California, but the nation's real estate woes have meant SRO crowds for real estate auctioneers like Sheldon Good & Co. The auctions offer property owners a way to speed sales in a stagnant market. With annual carrying costs running as much as 30% of the builder's original cost, the auction alternative can begin to look pretty good to an eager seller.

"Lots of financial institutions aren't proud to have surplus real estate," explains Thomas Pfeiler, president of development services for the U.S. League of Savings Institutions, which last year signed a marketing agreement with Good. "An auction allows a financial institution to keep a low profile and still get maximum

Michael Abramson

Real estate auctioneers Sheldon and Steven Good
The sweet smell of success.

marketing exposure. It helps our members sell properties in a hurry."

Big real estate brokers once scorned auctions, but soft markets and the government's huge inventory of unsold properties have begun to change their thinking. Cushman & Wakefield, for example, recently teamed up with Christie's to auction 15 properties for the Federal Deposit Insurance Corp. Grubb & Ellis, Coldwell Banker Commercial Group and Prudential Realty all have auction divisions or ties with auction houses.

But Good's privately held auction company says it racked up real estate sales of $208 million last year, making it the biggest in the business. Sales this year may hit $300 million, or even more if Good can snag a contract with the government's Resolution Trust Corp., which plans to use auctions to unload some of its swollen real estate inventory. Good also runs a title service and a mortgage company that offers discount financing to buyers. Together these add another $130 million to gross revenues.

Sheldon Good was running his own commercial real estate company in the early Seventies, when opportunity arrived in the form of irritation. He'd taken a number of listings for owners of either unusually large properties or holdings with huge carrying costs. But the owners would bug him constantly to find out what he was doing to sell the properties. To get the pesky owners off his back, Good tried auctions to make quick sales—at a time when most auctioneers were selling machinery, cattle and horses.

Good started out auctioning vacant food stores and aging auto centers, but his big break came in 1981 when U.S. Home, the Houston-based developer, asked him to auction eight houses as part of a publicity stunt designed to show Congress how high interest rates (the prime rate was then 17%) were crippling eager home buyers. He wound up holding 42 auctions for U.S. Home over the next 18 months, selling hundreds of condominiums in the depressed oil states of Texas and Oklahoma and other soft markets.

"If we had not done the auctions we would probably still be holding on to a lot of those units," says John Bily, a former division president for U.S. Home. "The prices we got were considerably less than our original asking price, but better than I would have expected."

Good and his son Steven soon began chasing soft real estate markets, from Houston to New York City. Their customers have included Mobil Oil and K mart, but most are developers and lenders stuck with hard-to-sell properties.

Michael Abramson

A would-be bidder studies the listings at the Goods' Skokie, Ill. auction
Even a meat-and-potatoes event can be unpredictable.

The Goods' sellers may be troubled, but their auctions are hardly sheriff's sales. There are colorful brochures, thick packets describing each property, and, for national auctions, even satellite hookups. Each year the Goods send over 200,000 pieces of direct mail to local builders and bankers. "We sell the sizzle and not the steak," boasts Sheldon Good, who lives in a $1 million condominium in downtown Chicago.

Each Good auction follows a well-rehearsed script, from the slide show explaining the auction process to the contracts quickly signed after each round of bidding. Potential bidders must show a certified check to participate and be prepared to go to contract that evening. Sellers typically have 48 hours to accept or reject the high bid, paying Good and the bidder a small fee if it's rejected. The exception is "absolute" auctions where the seller gives up his right of refusal in hope of garnering a higher selling price.

The Skokie auction is a meat-and-potatoes event for the Goods, one of four they do annually in the Chicago area. This time the sellers include a builder who has run short on money, an accounting firm seeking to unload excess office space and a real estate speculator hoping to turn a quick profit. The prospective buyers are a cross section of the neighborhood: a dentist and his wife looking for a nicer home, two executives from a local mental health center that's outgrown its facilities and a developer who specializes in shopping centers.

But even meat and potatoes can be unpredictable. One winning bidder is halfway through signing his contracts when he decides he wants to wait a day and have his lawyer review the documents. Six of the 17 properties don't draw any bids. In the end, only six bids are accepted, and one more property is sold the day after auction. One problem was that this auction was laden with commercial properties, only 60% of which typically sell at an auction, compared with 90% or more of homes and apartments. The total take is $1.7 million, far less than the $8 million the Goods had hoped for. But other recent auctions brought in as much as $10 million, and in one case, 50% more than the property's appraised value.

This unpredictability illustrates one obstacle to Good's long-term strategy, which is to convince builders that auctions can also be used in healthy markets. Even satisfied customers typically turn to auctions just once, or a handful of times at most. "People hate to use the unknown," says Michael Garzoni, a real estate representative for K mart, which has used Good four times to auction leases. Now Garzoni is trying to get rid of 280 leases on stores his company is vacating, and he feels he will get better prices using conventional methods.

"There's still that psychological

barrier to overcome," adds Mark Graveline, a vice president for Centerbank in Waterbury, Conn., which used the Goods to auction some Westhampton, N.Y. condominiums. "People still feel a real estate auction is a distress sale."

The Goods' other challenge is to maintain their position as the auction business becomes more crowded and competitive. "Until five years ago it was pretty much a matter of convincing people to use the auction method," says William Stevenson, president of Kennedy-Wilson, Inc., Santa Monica-based real estate auctioneers. "Now we're competing more and more with each other."

In Chicago, the Goods' hometown, for example, Baird & Warner, a local real estate agency, is planning to auction over 100 homes and apartments.

The Goods say they aren't worried. "We see the market as an expanding pie," says Steven Good, the company's president. A lot of folks holding on to real estate in the hope of a snapback in prices hope Good is wrong about the expanding pie. But he's probably right-on. ■

The Up & Comers

Lessons

After toiling for 17 years as an executive in big companies, Charles Brennan finally got to run his own show at L.E. Myers. His big-company skills came in handy in running a small outfit.

Turnaround tale

By Ignatius Chithelen

Gregory Gavmont

L.E. Myers Chief Executive Charles Brennan III
"Focus on the strong points, get rid of the weak operations."

In November Charles Brennan III, 48, a history major from Yale with an M.B.A. from Columbia, put up $2.6 million of his own money to buy 368,000 shares, a 15% stake, in L.E. Myers Co., an Oak Brook, Ill. company that builds transmission and distribution lines for electric utilities. It was a sick company but had a proud history, having been founded just short of a century ago by a young associate of Thomas A. Edison.

A year earlier Brennan, a former chief financial officer at Gould, Inc., had been brought in to run the ailing outfit. The stock was around 6½ when Brennan bought it. Today, at 16¼ a share, Brennan's stake is worth a tidy $8 million, including options.

Not a bad profit in less than a year. Especially considering that five years ago the firm was on the ropes. In 1985 it lost $16 million on revenues of $114 million. By 1988, when Brennan was brought in, Myers had gone through five chief executives in the past decade.

Publicly, the company blamed things like the 1982 recession and the fact that many utilities, caught by drastic cost overruns, were severely cutting back their expansion and maintenance work. But management blunders also contributed to the tailspin: The company diversified into areas like engineering services and fiber-optic cabling, where competition was fierce and Myers had little management experience. Desperate to win contracts as demand for new projects eased, Myers brought in business by bidding below cost. "The reasoning was, 'We'll worry about making money once we get the job,'" Brennan says. "We won a lot of contracts but lost a lot of money."

On one 1982 Saudi Arabian contract, for instance, not only did Myers lose money but its bankers also ended up paying the Saudis $20 million in

surety because the project wasn't completed. "We walked out on the job," Brennan says, "because we ran out of working capital and couldn't even pay the salaries."

Brennan didn't waste much time. He began by undoing some mistakes and getting back to basics. He sold the engineering and fiber-optic cabling operations at a loss of $2 million. He cut the corporate staff in half, to 94. Some $13 million in outstanding legal claims were settled for $1.25 million—Brennan argued the claimants would wind up with even less if Myers filed for bankruptcy.

Brennan found that his strong reputation with the banking community from his days at Gould made it easier for him to get financing: "The bankers told me my credibility was the critical factor in their decision to refinance the company."

Brennan has refocused the company on its original business of seeking contracts to build transmission and distribution lines. "This is our bread and butter," he says.

About two-thirds of the company's business comes from small contracts of under $1 million from investor-owned utilities like Illinois Power, Atlantic Electric and Southern California Edison. Being well funded and well staffed, Myers has an advantage in getting these smaller contracts, since many of its competitors are much smaller mom-and-pop operations. Myers operates out of 11 independent profit centers, serving utilities nationwide. Its roughly 800 hourly workers are all members of the International Brotherhood of Electrical Workers, but the union has been cooperative in shaving wages to help Myers compete with nonunion bidders for larger contracts.

Management skills aside, Brennan's turnaround has gotten a big boost from a pickup in demand from the utilities. Construction and maintenance of transmission and distribution lines is expected to grow by 8% to 10% a year over the next decade. "There's an awful lot of pent-up maintenance work that will come our way in the 1990s," Brennan says. New generating capacity is coming on-line to meet the growing shortage of electric power in regions like the Northeast. And many utilities that traditionally did their own maintenance work have trimmed staffs in cost-cutting moves. So they'll be looking to outsiders like Myers to do the work.

Under Brennan, Myers hasn't gotten bigger but it has become profitable. Revenues last year were $60 million, up just 4% from the previous year. But income from continuing operations was up fourfold, to $3.2 million. Myers has less than $1 million in long-term debt, down from $6 million in 1987, and has some $7 million in tax-loss carryforwards.

The good numbers have attracted at least one buyout offer. In March of last year, Williams Industries bid $5.25 a share in stock and convertible debt. The offer was initially accepted by the Myers board but later rejected, since Myers stock kept rising and Williams stock tumbled following a disappointing third-quarter loss.

"My experience at Gould taught me to look at the strengths and weaknesses of the business," Brennan says. "Focus on the strong points and get rid of the weak operations."

Meanwhile, Brennan savors his own market purchase of last November. "I realize it is a very good investment," he says. ■

The Up & Comers

Entrepreneurs

While franchising is not for everyone, it has sure helped John Fanning harness Uniforce Temporary Services' entrepreneurs to work for the common good.

A long way from Hell's Kitchen

By Rita Koselka

JOHN FANNING is an entrepreneur—by both nature and nurture. The son of a hustling Irishman and a Polish, salt-of-the-earth mother, he was raised in Hell's Kitchen on Manhattan's West Side. At 8 Fanning had his first sales job and at 16 was betting on horses. By 22 he'd worked at 16 different jobs, mostly in sales—everything from encyclopedias to ice cream.

From his father, says Fanning, now 58, he learned how to sell anything. From his mother, he learned to keep ideas simple and to stretch a dollar; from his betting, how to contain his losses; and from his insatiable reading habits, a hodgepodge of ideas from the likes of Winston Churchill, Harold Geneen and Peter Drucker.

In 1954, when he was 23, Fanning started his own personnel business, Fanning Personnel, following a brief stint at another agency. Within a few years, he noticed that one of the fastest-growing parts of the business was placing temporary personnel. Fanning decided to sell Fanning Personnel to his employees in 1966 and went off with the company's small temp services division to form Uniforce Temporary Personnel Services.

Fanning spent seven years learning the temp business before he began franchising in 1974. Done competently, franchising can harness many entrepreneurs to work for the common good. He built the business through startups and conversions of independent temp offices. He credits the conversion idea to Arthur Bartlett, the founder of Century 21, the nationwide system of real estate brokers. "We didn't reinvent the wheel," he says. "We try to leapfrog from someone else's ideas."

The first several years of building were slow, and Fanning paid himself a modest $30,000 a year. But by the

early 1980s, the franchising concept was taking hold. Uniforce posted earnings of $1.1 million on revenues of $43 million from 30 offices in 1984. In that year the company went public, raising $4 million. Fanning used the money carefully, adding 80 new franchisees. He also built a training facility and increased the company's marketing and consulting services.

It's paid off. Uniforce's sales have grown by 21% annually over the last five years, and return on equity has grown each year by an average 20.4%. Last year, with 110 franchised offices nationwide, Uniforce earned $4 million on revenues of over $110 million. The company is worth $47 million on the over-the-counter market; Fanning's 40% stake, almost $20 million.

Helping Fanning has been the wave of mergers, downsizings and restructurings. Increasingly, firms do not set up permanent staffing for peak production times.

Fanning now pays himself $250,000 a year, but like most entrepreneurs his real goal is to maximize his equity. His offices in New Hyde Park, N.Y., on Long Island are comfortable but low budget. He's warned Wall Street that Uniforce's 5% operating margins "aren't going up because anything more gets reinvested in the business to allow it to grow."

Uniforce operates mainly in smaller cities. Once Fanning signs up a licensee, he frequently injects capital, and then manages all of the licensee's back-office operations, such as payroll, taxes and insurance. For these services, Uniforce charges 10% to 11% of the franchisee's sales.

Photos by Alan Dorow

John Fanning at a training center, dubbed Temp University
"We didn't reinvent the wheel."

Typically, local temp services pay their employees weekly, but have to wait four to six weeks to get paid by their client companies. That negative cash flow is one of toughest problems single offices face. In Uniforce's case, the central office pays the temps directly, removing the cash flow burden from the local franchisee's shoulders.

Countless entrepreneurs and investors have stubbed their toes on franchising. Fanning says the concept has worked well for him, although he is involved in a lawsuit with three ex-licensees who claim they couldn't make money with his system. Fanning dismisses the 1985 suit as insignificant, saying that you can't turn everyone into a winner.

Making a videotape for licensees
"If they screw it up, it's their business that's on the line."

"Franchising really combines the best of centralization and decentralization," asserts Fanning. His licensees know their local markets, their needs and the skills of the temps available. "Quality control is really not something we need to worry about," agrees Uniforce's Executive Vice President Rosemary Maniscalco. "If they [the franchisees] screw it up, it's their business that's on the line."

Eighteen months ago, Uniforce announced that it was negotiating with a foreign buyer, but the talks broke off last March. With 40% of the equity, Fanning is willing to entertain an offer, but wants a deal where he can stay with the company and continue to run it. Now trading around $10 a share, 14 times earnings but well below its high of 17¾, the stock is fairly, if not fully, priced.

Fanning spent one year at New York's Oswego State Teachers College and went to night school at St. John's University but never finished a degree. He is an avowed self-improvement freak. He reads voraciously, looking for ideas that he can use. "As [Peter] Drucker says, and I completely agree with him: 'Do you know what business you are in?' Most people don't. We do. We focus and won't be distracted."

Today, the economy is slowing and so is Uniforce's growth rate. But Fanning sees this as a time of opportunity. With no debt and a $15 million line of credit, Fanning is expanding. He predicts revenues will reach $250 million in 1995. He may or may not hit that target. But more impressive than a particular number is the determination this man from Hell's Kitchen brings to his business. ■

"Education has for its object the formation of character."

HERBERT SPENCER

Before we know it, today's six-year-olds will be stepping into the work force in 2001. As a ation, we will not be able to compete the global marketplace in the 21st ntury unless we build a world-class lucation system now. And that's exactly hat we're building in Mississippi.

The education challenges facing ır state are not unique but Mississippi ok the first step in education reform 1982. Six months before *A Nation at sk* detailed our country's problems in ucation, Mississippi adopted the ıdmark Education Reform Act. Forty-e states have since followed our lead. :t we didn't stop there.

We've just enacted the most sweep-g, comprehensive education reform ckage in the nation, called Mississippi's E.S.T. Conceived by Governor Ray abus, it stands for Better Education Success Tomorrow. According to vernor Mabus, "This package is going improve education from preschool ough adulthood and on into the work ıce. Every Mississippian—regardless their age and where they live—will benefit from this program."

What this means to business is that we will be producing a work force hinkers and problem-solvers at every level. We're creating a new kind of ıool in Mississippi. A school where the focus is on the individual, not on reaucracy. Where teachers are rewarded for being innovative. A school ere students are taught to think, not just repeat memorized information a test. Where there is community and family participation. And our schools l be held accountable and given incentives based on how well their students form, not only in the classroom but also on the job after graduation.

Schools which demonstrate consistent and sustained levels of innovation l implement successful pilot programs will become Lighthouse Schools. ese schools will not only become models and share their expertise oughout our state, they'll also become models for the nation.

Three-year-olds will be screened for developmental and health problems. Special assistance and remedial programs will be in place to bring them up to speed.

Mississippi's B.E.S.T. also brings the world into the classroom with a major emphasis on technology. Students will be taught to be managers of information. Within three years, every student in every classroom in the state will have an hour's worth of technological learning every day whether through computers, satellites or fiber optics. Mississippi will soon be the only state with a computer laboratory in every elementary school so that six-year-olds can learn to read and write simultaneously on a computer.

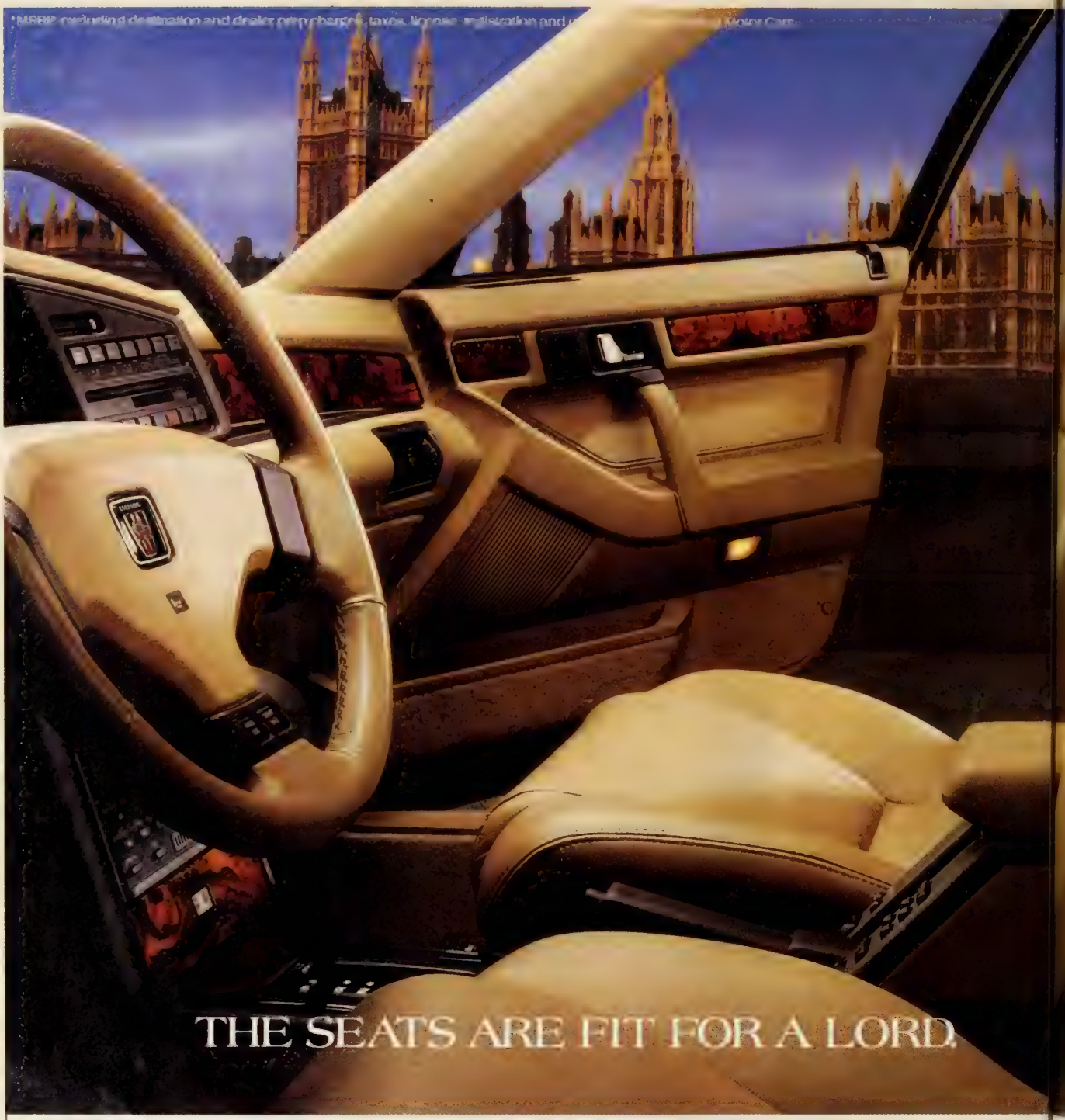
Mississippi's B.E.S.T. will accelerate our efforts to eliminate adult illiteracy with continuing education in the work place. And Mississippi business is going to see results very quickly. We were the first state in the nation to give tax credits for employers who initiated work force literacy programs. And we've just allocated more. We've established an Alliance of Families to attack family illiteracy with programs and materials so parents can participate in their children's education.

And these are just some of the highlights of more than 30 programs which make up Mississippi's B.E.S.T. "This package of sweeping reforms is not just legislation," insists Governor Mabus, "it's a concrete plan of substance, already in place, that puts Mississippi on the cutting edge of education improvement in this country. Business as usual is just not good business anymore. In Mississippi, we're meeting the future with our eyes open, our minds clear and our work force prepared."

For more information on the State of Change, contact Governor Ray Mabus or J. Mac Holladay, Director; Mississippi Department of Economic and Community Development; P.O. Box 849; Jackson, Mississippi 39205; (601) 359-3449.

The State of Change

MISSISSIPPI



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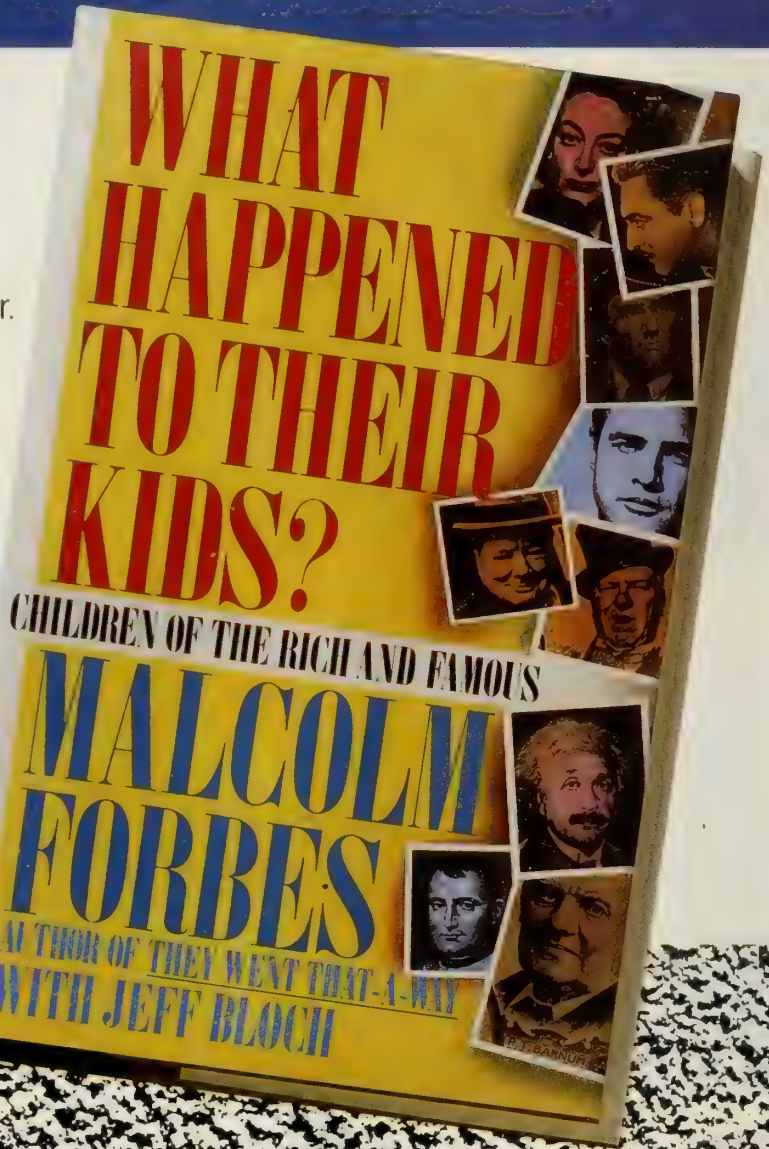


In writing this surprising and entertaining new book, bestselling author Malcolm Forbes looked beyond the surface fame into the private lives of some of the world's most celebrated rulers, tycoons, stars, artists, and criminals —and their not-so-famous progeny.

WHAT HAPPENED TO THEIR KIDS? unearths a richly varied collection of human stories, by turns amusing, alarming, illuminating, and sometimes deeply moving.

SIMON AND SCHUSTER
A PARAMOUNT COMMUNICATIONS COMPANY

Forbes Photo: Harry Benson Jacket design © 1990 by Lawrence Ratzkin Jacket photos of Churchill, Einstein, Napoleon, and Barnum by Culver Pictures/Peter Levy Research

New York State wants a new curriculum downplaying European culture. This suggests that the American tradition of pluralism was a bad thing.

A CALL FOR DISUNITY

By Michael Novak

A generation ago, social scientists were predicting the disappearance of ethnicity, as freeways and television and plastic produced a homogenized culture that might one day be designated (from discovered ruins) as "Early Period Holiday Inn." Little did they anticipate the furies that would be unleashed in Azerbaijan and other Soviet republics as the century neared its end; the bitter hatreds of Northern Ireland and Lebanon; the separatist itch of Quebec. Or the growing intensity of ethnic conflict in New York City and other hot spots in the U.S.

Against that trend, in 1972 I published *The Rise of the Unmeltable Ethnics,* predicting that the 1970s would mark the emergence of the "ethnics" in American life. Several other scholars writing at the time made the same point. And, indeed, many politicians with a strong ethnic identity did emerge from obscurity: Cuomo, Mikulski, Celeste, DeConcini, Deukmejian, Rostenkowski. These were the children of the immigrants from Eastern and Southern Europe, and by extension all the others who did not quite feel included in the high culture of New England's Brahmins.

In those days, we made a distinction between "the new ethnicity" and the old. In the old days, people living in ethnic enclaves had hardly known any other peoples, except as strangers and rivals. Many soldiers first met the "others" in their platoons in World War II. This was the old ethnicity.

In the new ethnicity, by contrast, nurtured chiefly in the inner suburbs, people now lived next to, and went to school with, "the others," had forgotten their parents' mother tongue, and yet were children of a distinctive tradition with identifiable political habits.

This rediscovery also gripped that first generation of blacks after Brown v. Board of Education, led brilliantly by Martin Luther King Jr. Alex Haley's famous book *Roots*—and the television miniseries—struck a powerful chord in all Americans, not only blacks.

Until recently the U.S. had a unique method for bringing together diverse peoples—who elsewhere, under different systems, were often murdering one another. Our system taught them to live as good neighbors, gradually to respect one another, and to take pride in civic cooperation. This system was a model emulated around the world. Until recently.

Suddenly, ethnicity has turned virulent. Last July the New York State Commissioner of Education issued a report calling "European culture and its derivatives" oppressive. The report debunked "the European-American monocultural perspective." In short, it suggested that the American way of pluralism was a bad thing and that the "American Idea" was a fraud.

It is quite legitimate to demand, as does this New York report, appreciation for "the history, achievements, aspirations and concerns of people of all cultures." But it is far too much to demand an "equal" focus on all cultures. For not all cultures on this earth have produced institutions and ideas such as those that animated the Declaration of Independence of July 4, 1776. Compared with Eastern Europe or sub-Saharan Africa or Red China, God did bless America.

Not in Africa nor in Asia nor in Latin America nor in large stretches of northeastern Europe can one find the cultural roots that lie behind the U.S. Constitution, or the habits and institutions that give the Constitution its daily relevance and force. That Constitution is no parchment barrier; quite particular experiences lie behind it. This history must be learned afresh by every generation. Truths "self-evident" to the framers were intended to become valid for all, whatever their land of origin.

The primary task of education should be to keep alive the particular ideas and institutions that inspired the design of this new American system. This system was without model or precedent on the face of the earth when it began and remains today a beacon for much of the world.

Forget those "European-American" ideas that suffuse the U.S. Constitution, and this nation will swiftly descend into the racial and ethnic strife recurrent elsewhere on this planet. Thus, those rumblings of last July from New York in the Commissioner of Education's office portend ethnic splintering and institutional disarray. What this can lead to is painfully evident in the picketing outside the shops of Korean merchants in New York City by certain extremists, and in many other ill omens.

What Americans pledge allegiance to on July 4 is not a piece of geography or a royal history or a language or a folk, but a form of governance, "the Republic." Take away the Republic and the deal is off. Take away those self-evident truths on which it rests, and the Republic falls. Some forms of "pluralism" and "diversity" destroy. ■

Philosopher, journalist and ex-U.S. ambassador Michael Novak directs social and political studies at the American Enterprise Institute in Washington, D.C. Among his recent books are Taking Glasnost Seriously *and* Free Persons and the Common Good.

The White House wants lower interest rates; the Fed has been resisting. But circumstances are such today that the Fed seems ready to push interest rates down—with a bit of guidance from a long dead Swedish economist.

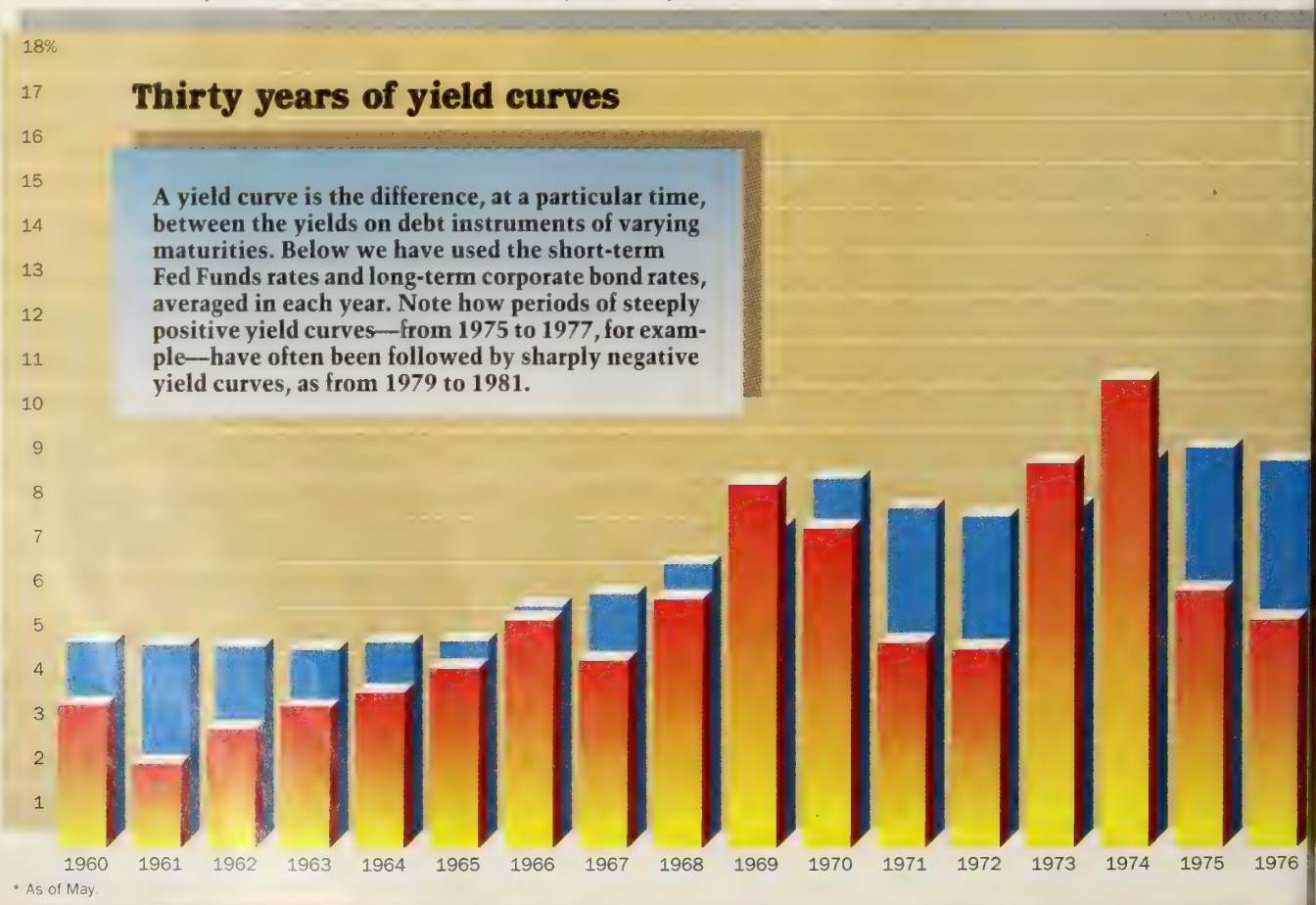
The gospel according to Knut Wicksell

By Warren T. Brookes

ONE OF THE TOUGHEST and most influential ideological warriors on behalf of hard money resigned in early June as vice chairman of the Federal Reserve Board. In August the soft-spoken Manuel (Manley) Johnson will move to the less combative pursuits of academia and public speaking.

With Johnson's encouragement the Fed has stubbornly resisted the Bush Administration's calls for lower interest rates and a cheaper dollar. As a result, Johnson had become a prime target of the easier-money forces at the White House, and the dollar bashers at the Treasury. Within days of Johnson's resignation, George Bush's chief economic adviser, Michael Boskin, went on *Meet the Press* to claim that the Fed would be "irresponsible" if it did not move to cut interest rates. By midmonth Commerce's Robert Mosbacher, Treasury's Nicholas Brady and several Republican congressmen had joined in the unmistakable chorus of Fed-bashing. Complained Mosbacher to a *Wall Street Journal* reporter: "The slow growth we're experiencing, along with this credit crunch, is a good reason to ease [interest rates]."

While Johnson's departure will have more of a symbolic effect than anything else, it now seems almost certain that the cost of money is about to come down. But the Fed is



Thirty years of yield curves

A yield curve is the difference, at a particular time, between the yields on debt instruments of varying maturities. Below we have used the short-term Fed Funds rates and long-term corporate bond rates, averaged in each year. Note how periods of steeply positive yield curves—from 1975 to 1977, for example—have often been followed by sharply negative yield curves, as from 1979 to 1981.

likely to move slowly and a bit more reluctantly than the Administration would like. It is afraid that cheaper money might raise fresh inflation fears and drive interest rates right back up again, possibly causing a severe recession.

The fear is well founded. Or so the world's credit markets seem to be saying. For example, immediately after Johnson announced his resignation, the markets pushed up long-term bond yields by nearly 30 basis points. Two days later Boskin went on *Meet the Press* in an attempt to jawbone rates down. The markets ignored him. Whether this was a mere knee-jerk reaction or a profound signal remains to be seen, but it certainly gave added strength to the fears of those who worry about inflation.

In an interview with FORBES two days before he resigned, Manley Johnson said that his work at the Fed was influenced by Knut Wicksell, a long dead Swedish economist. He explained the Swede's financial theory this way: "It just says there is a natural interest rate out there at any given time which is really analogous to what the Keynesians call the full employment rate of unemployment, or the rate of optimum economic growth. We don't presume to know what that natural rate is. We let the markets tell us. If they show inflationary expectations, then the Fed funds rate is too low relative to the natural rate, and vice versa."

By this line of reasoning, the spike in interest rates that followed Johnson's resignation was, in Wicksellian terms, a sign that markets still harbored deep inflationary expectations. To put it another way, the market was signaling its agreement with the high interest rate policy propounded by Johnson and strongly supported by Fed chairman Alan Greenspan.

Who is this Knut Wicksell and what does he have to do with mortgage rates and the cost of carrying the U.S. national debt?

Wicksell thought central bankers should manage their monetary affairs through use of a fairly simple, and widely broadcast, rule. The central bank should formally commit itself to price stability by keeping the short-term bank rate (in today's terms, the Fed funds rate) as close as possible to the long-term "natural rate" of interest—what creditors expect to earn on their capital, before adding what they need to protect their capital against inflation.

Wicksell (who was writing during generally noninflationary times) was in effect proposing what is today called a "flat yield curve" between the short-term bank rate and the long-term real or noninflation rate of interest. There are many ways to measure the yield curve. The chart *(below)* measures it as the difference, at a given point in time, between the short-term Fed funds rate and Moody's Aaa long-term bonds. The Fed's economists generally use the difference between the Fed funds rate and 30-year government bonds. By this measure, today's yield curve in the U.S. is fairly flat; the Fed funds rate is only about 15 basis points lower than the rates on long-term government bonds.

The problem facing the Fed is this: If, as it easily can, it lowers short-term rates through open market operations or other means, will long-term rates also come down? If they don't, it will be largely because of the market's inflationary expectations. What would be ideal right now, for both the Fed and the White House, would be a yield curve that has a moderate positive slope, but at considerably lower rates along its entire path.

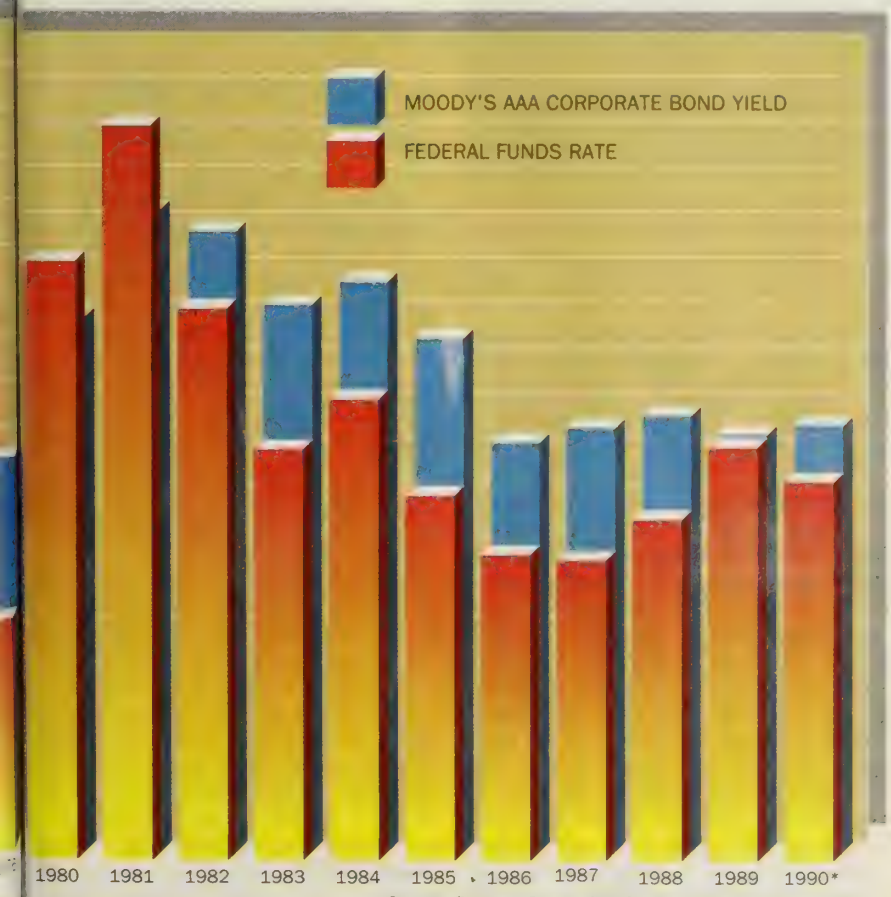
Monetarists, needless to say, think using yield curves as guides to monetary policy is dangerous. Monetarism's leading contemporary light, Milton Friedman, says: "In general, it is a great mistake for the Federal Reserve to fine-tune its policies on any basis, including interest rates."

Why? Friedman: "It is safe to say that the natural [or noninflation] rate of interest has been roughly 4% for 300 or 400 years. But the variations from that norm are so small and have such very large effects that [using the natural rate to make policy] is a little like balancing policy on a knife-edge. You just can't do it."

What is possible and desirable, says Friedman, is to regulate inflation and nominal economic growth by watching after the aggregate money supply. "Over a long period," he says, "the aggregate movements are still consistent with growth and inflation."

Manley Johnson is unconvinced. "These monetary aggregates tell us very little over the short run," he says. "They are very sensitive to changes in interest rates. People switch their money into different instruments quite easily. So it is almost hopeless to try and look at some short-term quantitative measure of money."

Are the monetarists and the Wicksellians really so far apart? Robert Keleher, Manley Johnson's aide at the Fed, doesn't think so. "These spread indicators can be viewed as fully consistent with a monetarist approach,"



Sources: Economic Report of the President; Federal Reserve Board

Susan Steinkamp/Saba

Manuel Johnson, who recently resigned as vice chairman of the Federal Reserve Board
"The yield curve has moved from highly steep to flat, and inflation has been very stable."

he argues. "Changes in the funds rate/long-term spread alter the incentive structure of the money supply process. The spread is the measure of the thrust of monetary policy."

It's no secret why old Wicksell has so appealed to the Fed of late. As the global financial markets have been deregulated, monetary aggregates (like M1 and M2), the "targets" on which classical monetarism depends, have become unreliable guides to central bank policy. Too often the aggregates were behind the times and seemed to predict inflationary outbreaks that didn't occur and recessions that failed to materialize.

Frustrated by trying to steer the economy with a broken compass, the Fed's members have looked to the financial and commodity markets themselves for more timely and forward-looking guidance. During the last two years Johnson and fellow Fed member Wayne Angell have been paying close attention to commodity prices and exchange rates, and to long-term government bond rates. That makes very good sense in an increasingly open global economy, because the market's millions of economic agents channel their future expectations into these market prices. Chicago Federal Reserve economist Robert Laurent studies the matter closely and has concluded that "the spread between a long-term bond rate and the Federal funds rate would have given better forecasts of future changes in real income than other potential guides."

For the monetarists who still insist that monetary aggregates are the best guide to running the nation's monetary policy, Manley Johnson has a good question: "Why should we wait for lagged data when information from the financial markets is available every day? While those markets aren't always correct, they are the most efficient in the world at processing information very accurately about what the market expects."

In a speech he gave to the Cato Monetary Conference a couple of years ago, Johnson said: "When analyzed in conjunction with other market prices, the yield curve can . . . make an important contribution to policy-making."

Johnson went on to tip off his audience to the Fed's increasing reliance on a Wicksellian approach. He said, "Information contained in the term structure of interest rates [i.e., yield curve], the foreign exchange market and certain broad indices of commodity prices has proved useful in the formulation of monetary policy."

Part of his dedication to these principles was shared by other Fed members. But Johnson also wanted to make it clear that no one at the Fed is slavishly following a dead economist. "We are not all Wicksellians now, to paraphrase an earlier economist [the Nixon Administration's Herbert Stein]," said Johnson. "But Wicksell's ideas have certainly helped us shape a market-based approach to promoting price stability in an increasingly complex world marketplace."

Think of yield curve policy in these somewhat oversimplified terms: Suppose the Fed funds rate is 5% and high-quality long-term corporate bonds yield 11%. That means the yield curve is steeply positive—its slope is 600 basis points. In such an environment, commercial bankers have great incentive to borrow short (at 5%) and lend long (at 11%). So great is their incentive to create credit with a 600-basis-point spread that bankers will happily give up some of their return to inflation. Such a steep

positive spread can be good for economic expansion. Too good. It can also become an incentive for inflationary expansion.

Now take the converse case. Suppose long bonds are yielding 6% while the Fed funds rate is 10%. Now the yield curve is negative, by 400 basis points, and the bankers' incentive is to close down their lending departments. Why lend at 6% when doing so costs 10%?

What if the yield curve is more or less flat? In that case, bankers would make only those loans which earned a real, noninflationary return. The economy would not be starved of credit; neither would it be flooded with it.

Central bankers don't have much power over long-term rates; the market sets those. But the central bankers do hold great and immediate sway over short-term rates. These can be manipulated to flatten (or, in recessionary times, widen) the yield gap. Done well—and this involves a delicate balance between too little and too much credit—flattening the yield curve should eventually bring down the long-term rates. Why? Because the market's inflationary expectations will be dampened: Investors will demand a smaller premium to protect themselves against the erosion of their capital.

When Manley Johnson gave his speech at the Cato Monetary Conference in February 1988, the Fed was flattening the yield curve by pushing up the Fed funds rate. In December 1987 the Fed funds rate was 6.77%, and the yield on Moody's Aaa bonds was 10.11%, for a highly positive yield curve of 334 basis points.

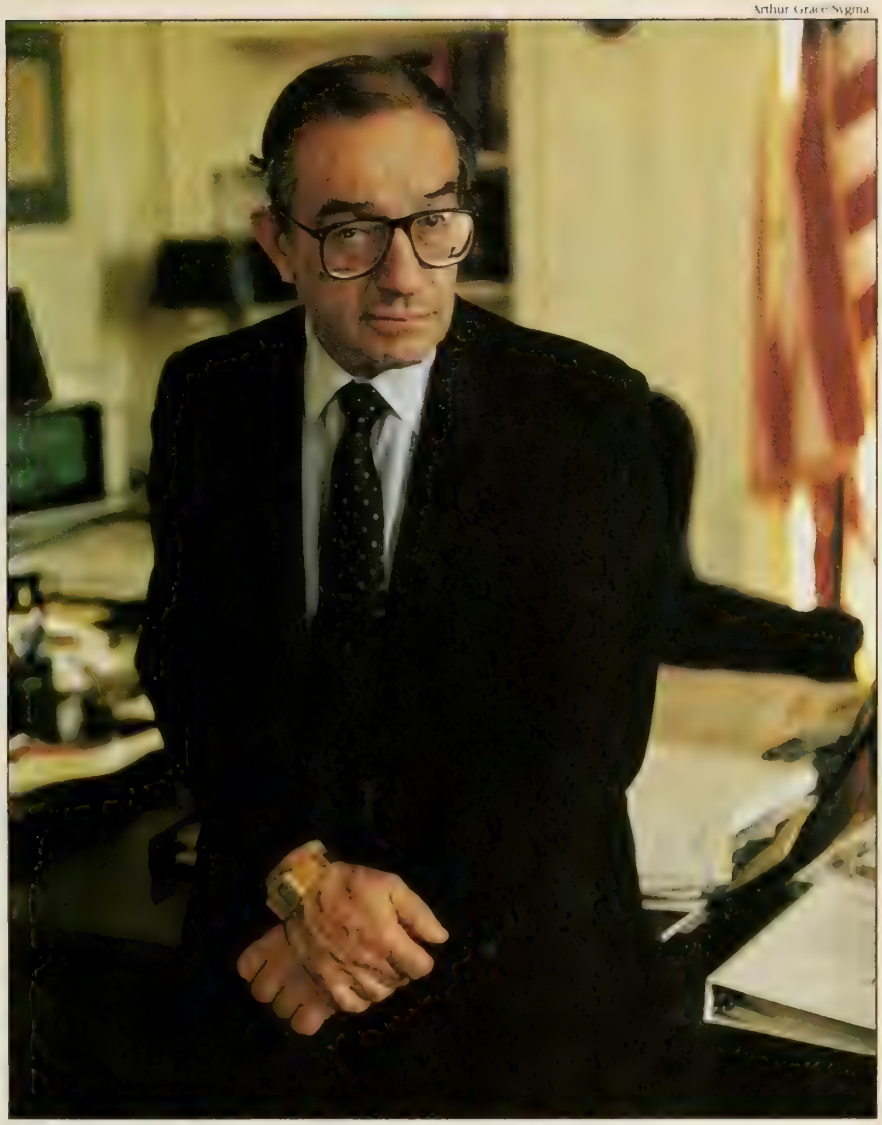
Within a year the Fed funds rate had been pushed to 8.76% and the yield curve flattened to just 81 basis points. Here was a case where raising short-term rates actually lowered long-term rates. How? By dampening inflationary expectations.

By last September, just before the stock market's 191-point mini-crash, the short rate was up to 9.02% and the long bond rate (as measured by Moody's Aaa credits) yielded 9.01%—that's about as flat a yield curve as you can get.

What happened? The economy continued to grow, though more slowly, while inflation began to unwind in what may have been the first "soft landing" ever engineered by the Fed.

Johnson explains this success by the fact that the Fed never pushed up short rates so far that the yield curve turned steeply negative. In this the Fed clearly learned from the 1979-81 period, when Paul Volcker pushed up the Fed funds rate above 16% and created a yield curve of *minus* 221 basis points. That wrung out a lot of inflation, but it also pushed the economy into a very nasty recession.

Arthur Grace/Sygma



Alan Greenspan, chairman of the Federal Reserve Board
Supporting Johnson and resisting White House calls to lower rates.

Johns Hopkins' supply-side economist Steve Hanke explains this Wicksellian "incentivist," or "rules," approach to monetary policy: "Banks respond as do other profit-maximizing enterprises to the marginal cost and marginal return on funds," says Hanke of the yield curve incentives. "Hence, when the spread between marginal cost [Fed funds] and marginal return [longer-term yields] expands, banks tend to create money by expanding their loans, and vice versa."

Thus the delicate balance the Fed must maintain, and thus the dangers of interest rates that are either too high or too low. But the Bush Administration must worry about being reelected in two years. The strongly positive yield curves from 1983 through 1987 may have caused fears of future inflation in the credit markets, but they encouraged bank lending and economic expansion and coincided with the economy's sustained expansion, which reelected Ronald Reagan and elected George Bush.

But remember the danger. Over the last several years it has become clear that what politicians propose, markets often dispose. If the world's credit markets decide that the Bush Administration's calls for easier money threaten to rekindle inflation, long bond rates will begin to rise again. The yield curve will steepen. Credit will expand. The inflationary expectations will be (self) fulfilled, and a future Federal Reserve Board will have to douse the economy with sky-high short-term rates à la Paul Volcker.

Something like this occurred prior to Richard Nixon's 1972 reelection campaign. In 1970 the yield curve was

Jailbird genius

By today's standards, Stockholm-born Knut Wicksell (1851-1926) would be a conservative economist, but in turn-of-the-century Sweden he was a radical and an eccentric. He once spent two months in the city jail of Ystad, in southern Sweden, for casting ridicule on the story of the Immaculate Conception. He put his jail term to good use, translating Adam Smith's *Wealth of Nations* into Swedish.

By the 1930s, despite his outspokenness, Knut Wicksell had posthumously acquired a well-deserved reputation as one of the world's great economists. In recent years, Wicksell's influence in public finance and monetary economics has been growing. His work in public finance motivated James Buchanan (and others) to found an entirely new economics subdiscipline in the 1960s known as "public choice." That field uses the assumptions and tools of economics to anticipate political-bureaucratic behavior (such as taxing and spending) under various different types of constitutional rules and regulations.

Sweden's economist Knut Wicksell
He put his jail term to good use.

Buchanan, who won the Nobel Prize for Economics in 1986, put Wicksell's contributions into perspective when he said recently, "In any overall evaluation of the history of fiscal thought, Wicksell alone commands the heights of genius."

Wicksell was also the chief forerunner and prophet of modern monetary economics. He had a decided influence on monetary theory as developed by Ludwig von Mises and Friedrich Hayek of the Austrian School of Economics. In America the great proponent of stable money, Irving Fisher, was apparently much impressed with Wicksell's work.

In recent years, Federal Reserve Vice Chairman Manuel Johnson, along with Fed Governor Wayne Angell, have been motivated by Wicksell's monetary insights, especially his 1898 lecture to the Economic Association in Stockholm, entitled "The Influence of the Rate of Interest on Commodity Prices." From those insights, Johnson has developed and helped to implement a set of neo-Wicksellian policy rules for stable money.—**Steve Hanke**

only mildly positive. By 1972 it was wildly positive, by over 270 basis points. The election over, then-Fed chief Arthur Burns slammed on the brakes: The Fed funds rate nearly doubled, to 8.73%; the yield curve turned seriously negative; and the economy hit the 1974-75 recession.

Then, from 1975 to 1978, when the yield curve averaged a positive 242 points, an already high inflation rate of more than 6% rose to double digits by 1979, taking long-term bond rates with it. This was doused by Paul Volcker, who boosted the Fed funds rate from under 8% in 1978 to over 16% in 1981, and brought on the recession of 1982.

Further complicating things for the policy-makers, the markets are nothing these days if not jittery. Last December the Fed's Federal Open Market Committee faced growing signs of a weakening economy, and voted to ease policy. But instead of falling, long bond rates rose. One of the prominent dissenters to this vote was hard-money man Wayne Angell, who wanted to keep the Fed funds rate high—that is, he wanted to keep the yield curve relatively flat.

In retrospect his dissent was right on. Says supply-sider and veteran Fed-watcher Jude Wanniski of Polyconomics: "Probably the most important event at the Fed last year was Wayne Angell's dissent. The conventional wisdom was that the economy was weak, and easing was desirable. But the price of gold was still above $400 and trending upward, and Angell argued that easing of Fed funds would not be liked by the bond market and would be seen as an attempt by Fed to push the economy into higher economic activity, which would simply be inflationary."

Susan Steinkamp Saba

White House economist Michael Boskin
The markets ignored him.

But that was last year. In mid-1990 the situation is different. The economy is sluggish and gold is below $350 an ounce and falling. At this point falling interest rates are less likely to raise inflation fears, and might instead avert an impending recession. This would be consistent with Wicksell's belief that commodity prices—gold among others—are the best indicator of the real shape and direction of the yield curve.

As he prepared to pack up his things at the Fed in June, Manley Johnson said: "The key in all this is to keep real [i.e., inflation-adjusted] interest rates positive, which would be more proximate to [Wicksell's] natural rate. That's been the major difference between the 1970s and 1980s. In the 1970s real interest rates were negative. In the 1980s they have been highly positive. We have had a long expansion, the yield curve has moved from highly steep to flat, and inflation has been very stable."

With inflation stable and commodity prices, especially gold, weak, lower interest rates may well be consistent with a continued flat yield curve. Look for considerably lower interest rates by year's end. ■

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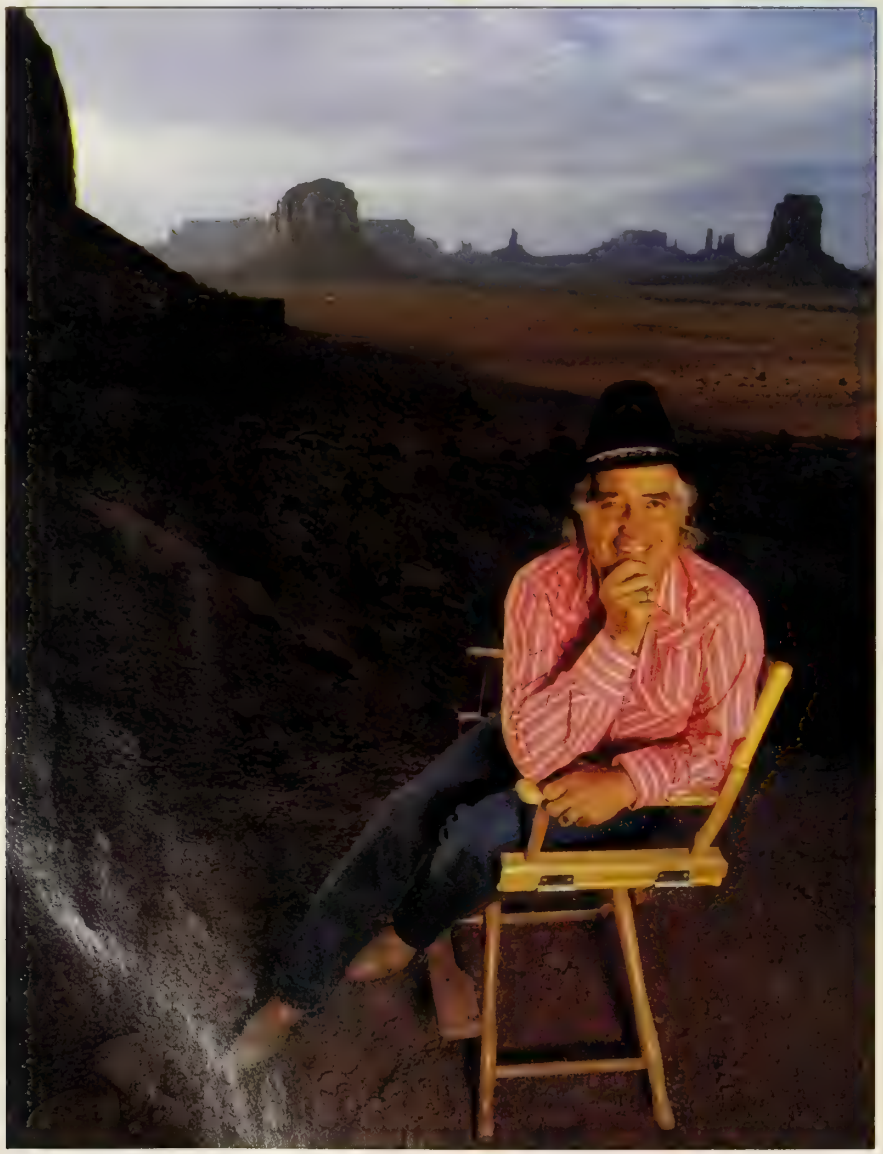
Arizona's Monument Valley helps sell cars, dog food and what-have-you. In the process it brings in wampum for the hard-pressed Navajos living nearby.

In John Wayne's footsteps

Photos by Reed Rahn



Bill Crawley, the man to see in Monument Valley
For $25 an hour he'll get you what you need.

By Seth Lubove

THIS SUMMER'S box office hit *Back to the Future Part III* wouldn't have been the same if it weren't for Monument Valley. The script sent Michael J. Fox and his time machine back to the year 1895. What better way to represent that era than to have Fox land among the valley's magnificent crested buttes and have him chased by 125 yelping Indians on horseback?

For Americans and for much of the world, Monument Valley has come to symbolize the Wild West, having served as a backdrop for scores of horse operas ranging from *Stagecoach* in 1939 to *The Legend of the Lone Ranger* in 1981.

Nowadays western movies are out of fashion but Monument Valley isn't. It swarms with advertising people. Admen use the dramatic landscape to draw people to such diverse products as Estée Lauder perfume, Guinness beer, IBM typewriters, Norfolk Southern's freight service and Carnation Co.'s Come 'N Get It dog food. Almost every major car company has placed a car in Monument Valley—or on top of one of its spires. Next month Volvo will be here shooting a commercial for its new line of luxury cars. Clearly the carmakers think Monument Valley has a rugged outdoors feel, perhaps enough to make viewers want to jump into a Volvo or a Mercedes and head for the wide open spaces. The advantage of pitching dog food from atop a crested butte? It sure gets the viewers' attention in a hurry.

Monument Valley is part of a 17.5-million-acre Navajo Indian reservation (pop. 215,000), that covers an area larger than West Virginia. The local economy is moribund; one-third of the working-age population on the reservation is unemployed, and those who do work earn an average annual income of less than $4,400. After tourism and coal mining, the filming of commercials is among the area's biggest sources of income. The Navajo tribe gets only about $80,000 a year in fees for the use of the location, but it gets substantially more indirectly, mainly money that the film production outfits spend at hotels, restaurants and trading posts.

When film or advertising people arrive in Monument Valley, one of the first men they look for is Bill Crawley. For $25 an hour, Crawley finds sand

Photographers shooting an advertisement for Guinness beer
With westerns out of fashion, the admen have taken over.

lunes, stagecoaches, Old West ›rops—you name it. Crawley can also ıelp smooth the way with the Indi- ıns; many of them trust him but are uspicious of outsiders.

A few months ago Crawley, 55, ounded up 25 local Navajos for a ;anyo television commercial, dressed hem in warrior garb, then set them oose against a make-believe cavalry. ;efore that he helped Lanier's voice ›roducts division film an ad featuring \rnold Palmer driving a golf ball from he top of a 900-foot butte.

In 1949, at the age of 14, Crawley ıame to the reservation with his fa- her, who trucked food deliveries over usty dirt roads to the various Indian rading posts. That same year the two rought supplies to the set of John ord's *She Wore a Yellow Ribbon,* star- ıng John Wayne.

Wayne and Ford are long dead but Ionument Valley lives on, and for ow at least advertising people can't eem to get enough of it. It would ttract even more film crews were it ot for a lack of accommodations. he nearest town, Kayenta, is 24 ıiles from the valley, and accommo- ations there consist of a 160-room loliday Inn and a smaller motel. here's a lodge, Goulding's, whose ›under, Harry Goulding, was responsible for bringing director John Ford and the first film crews to the area. But rooms are often booked.

The Navajos say they'll build another hotel at Monument Valley within four years, but in the meantime they're losing potential opportunities. Example: Director Ridley Scott *(Blade Runner, Alien, Black Rain)* wanted to use Monument Valley this summer to film some scenes for an upcoming motion picture *(Thelma and Louise),* but he couldn't get any hotel rooms. So he will do his filming over 200 miles north in Moab, Utah.

For years, when filmmakers needed Indians they got them on the cheap.

But last fall, during the filming of *Back to the Future Part III,* the band of Navajos in full battle dress went out on strike for a day. Universal had hired the Indians and their horses to race across the floor of the valley in pursuit of Michael J. Fox. But the Navajo extras were disgruntled over the pay of $50 a day. They became incensed when a helicopter carrying a film crew began swooping overhead to catch the action, kicking up dust and spooking the horses. The Navajos won a doubling of their wages.

Some of the Indians are of two minds about the use of their valley as a come-on for advertisers. Like most tribes, the Navajos attach a religious significance to their land. Tribal leaders must approve in advance any filming plans, and film crews must avoid trampling over the Navajos' religious shrines and the vegetation on which their sheep graze.

But so long as the film and advertising people mind their manners and keep their purses open, the Navajos tolerate them. Many even enjoy mounting horses and making believe they are their own warlike ancestors. Of the camera-toting intruders, Gilbert Brown, manager of the Navajos' office of broadcast services, says: "Just keep them coming." ■

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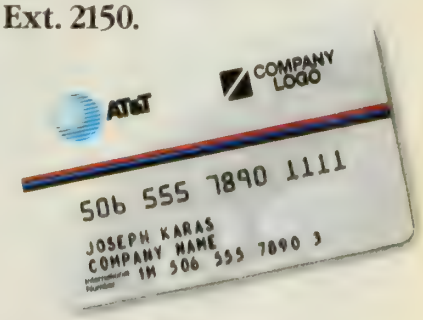

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The right choice.

Edited by Joshua Levine

When Marks & Spencer bought Brooks Brothers in 1988, it started making changes. But at Brooks Brothers, change entails special risks.

An escalator? In Brooks Brothers?

Brooks Brothers' remodeled flagship store on Madison Avenue
The new escalators made old-line customers feel queasy.

In October Brooks Brothers, the venerable bastion of traditional men's tailoring, did something radical. "Brooks" as generations of steady customers have fondly called it, installed escalators between the first three of its six floors.

The escalators came along with several other customer-friendly innovations—including putting shirts and sweaters on open tables instead of inside glass cases—as part of a $7 million renovation of Brooks' flagship store at 346 Madison Avenue.

Old-line customers were a bit shaken by the new moving stairways. Many wrote William Roberti, Brooks Brothers' president, to say so. To these customers, shuttling to Brooks' second floor via escalator seemed, well, jarring. They liked things the way they had been back in their college days.

Mind you, we're not talking about stuff like banks of video monitors flashing pictures of three-piece suits or espresso bars on every floor. The new Brooks looks remarkably like the old Brooks, with exactly the same dark-mahogany-paneled men's club decor and atmosphere. Moreover, the Madison Avenue store badly needed escalators. Especially at holiday times, the long wait for Brooks' stately elevators could test the mettle of even the most loyal customer.

But since its founding, in 1818, Brooks and its clientele regarded any kind of change with slightly less warmth than Edmund Burke felt for the French Revolution. Fifteen years ago Brooks sweated bullets when it widened the width of the trouser legs on its suits from 16 to 17 inches. "Let me tell you, we were worried," says a former Brooks executive. "This is not a retail store, it's an American institution, and anything remotely revolutionary will destroy it."

Ironically, this revolution comes from England. Marks & Spencer Plc., the British mass-merchandising giant and Brooks' parent, is new to the colonies and Brooks' haute Yankee ways (Forbes, *Sept. 18, 1989*). It's learning the hard way. In 1988 Marks & Spencer ($9.5 billion sales) paid the ailing Campeau Corp. the lordly sum of $750 million for Brooks' 47 stores (it now has 52). At the time, the price looked much too high. It still looks that way.

In the fiscal year ended Mar. 31, 1989 Brooks earned $39 million before interest and taxes on sales of $277 million. In the latest fiscal year, sales grew to $322 million, thanks partly to new stores in Chicago and in Columbus, Ohio.

But earnings fell 41%, to $23 million. Part of that drop came from what M&S coyly calls "de-stocking." Which means frequent sales and promotions to get rid of slow-moving merchandise—Brooks is currently running a 35%-off sale. Marks & Sparks, as its budget-minded British customers call it, has begun using sales promotions in Britain throughout the year. But in the old days Brooks ran sales only twice a year. Brooks officials wouldn't be interviewed for this story.)

A bright spot is Japan. Brooks has a 51% stake in 31 stores there, which it runs in a joint venture with Japan's Daido Worsted Mills Ltd. The Japanese are suckers for Brooks' version of Protestant chic, and these solidly profitable stores now account for about 30% of Brooks' earnings.

In the U.S., however, Marks & Spencer is busily rewriting the gospel according to Brooks. It brought in stylish, English-cut suits with slightly padded shoulders, pleated trousers and natty two-button, double-vented jackets. There is also an expanded sportswear selection. You can still find country club favorites like pants embroidered with golfers in midswing for $78 and ties with Brooks' "golden fleece" logo—a limp sheep hanging from an elaborate tassel. But just across from the golf pants hangs a rack of sleeveless tank tops. And for the buttoned-down biker, a wide selection of leather and suede jackets.

Not surprisingly, some Brooks regulars have taken a dim view of all this—is nothing sacred anymore? In recent years double-breasted suits have accounted for up to 75% of all suit sales at Marks & Spencer. The company boosted Brooks' supply to 15% of inventory, but double-breasteds have never approached 15% of sales. The new models also upset Brooks' salesmen, many of whom look like they've peddled Brooks' wares since the store invented the button-down collar at the turn of the century. Says one, "I cringe whenever I show a customer a double-vented suit. Brooks means single vents."

So it does. The epitome of Brooks' style, and the bedrock of its business, has long been the aptly named "sack suit," a loose-fitting, unpadded body-envelope that sells for $600 on average and can go anywhere respectably without attracting attention. It's quintessentially understated in a kind of Boston/Old New York way. Which is exactly what the typical Brooks customer has wanted. "You always had the assurance that if Brooks dressed you, no one would laugh,"

Brad Trent

Brooks President William Roberti
Presiding over too much change?

says Lawrence Wortzel, a retail consultant and professor of marketing at Boston University.

Marks & Spencer made more subtle changes as well. Brooks never advertised very much, but for years readers of the *New York Times* could open to the newspaper's second page and expect to find a simple drawing showing loafers or a Brooks seersucker suit in the upper-left-hand corner. Brooks crafted the unassuming ads in-house and ran them just about every day in the same spot. Last year McCann-Erickson was hired to produce Brooks' advertising. Suddenly, splashy, full-page color photos started appearing in magazines with the theme "The surprise of Brooks Brothers."

The old ads were Ivy League and soft-sell and they embodied Brooks'

Brooks' jazzy new advertising
Oops, too trendy.

retiring, unostentatious style. And their placement and frequency in the *Times* were solidly reliable—a bedrock virtue to the Brooks customer.

The new ads certainly had more pizzazz in a Madison Avenue sort of way. But there lies trendiness. The result: another flood of angry mail to Brooks President Roberti.

Which illustrates the Brooks dilemma. To some degree, Marks & Spencer couldn't afford *not* to tinker with the hidebound Brooks operation. When M&S bought it, Brooks had tidy margins of over 10%—fine performance for a specialty menswear retailer—but growth had slowed to 4% to 5% a year. In Brooks, Marks & Spencer got the clothing equivalent of a two-fisted steak house with a steady stream of well-heeled meat-and-potato eaters. It soon found that the arteries of older customers were hardening and the new generation of Brooks shoppers was turning away from a diet of red meat. They wanted nouvelle cuisine.

Take architect Peter Moore, 31, exactly the kind of customer Brooks wants to win back. Moore has shopped at Brooks since childhood. He still does, but only for Brooks' sturdy boxer shorts and beloved button-down oxford shirts. He wouldn't be buried at sea in a sack suit. "It has no sass," says Moore. "A Brooks Brothers suit is for the 50-year-old insurance executive who commutes from Westport." Moore buys his suits instead from Ralph Lauren.

Lauren, a former Brooks salesman, has tried to capture the marketing position of his old employer. But he has replaced Brooks' plain Yankee look with an American's daydream of how an English country gentleman once lived and clad himself. Retailers like Lauren and Brooks' neighbor Paul Stuart are snatching some of tomorrow's Brooks customers.

To justify the hefty acquisition price, Marks & Spencer aimed to boost Brooks' profits to $75 million within five years—a goal that now looks unreachable. Many of the innovations it introduced are sensible ones. But Brooks' still loyal clientele will accept only incremental, subtle change. The trick will be to keep them happy while at the same time attracting younger people who want something more international and trendy than Brooks' traditional wares. Brooks remains a jewel of American retailing, but it's a fragile jewel. Says a former Brooks executive: "Marks & Spencer never understood the nuances of the Brooks Brothers customer." It's learning, but the lessons will take a long time to apply. —J.L.

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Afraid to allow Imelda Marcos to return to her homeland, the Philippine government is letting U.S. courts chase her money. But, for all the tears she sheds in court, Imelda's hardly going to lose all her shoes, jewels or her far-flung fortune.

Dry those tears, Imelda

By Jonathan Greenberg

IMELDA MARCOS, a onetime beauty queen, has been putting on the performance of her life the past two months. On trial in federal court in New York on charges of embezzling millions from the Philippines and laundering the funds in the U.S., the former Philippine First Lady breaks into tears regularly. Her lawyer portrays her as a frail widow who was "abducted" from her homeland by U.S. government agents.

But all the tears and histrionics mean little. No matter what the outcome of the New York trial, Imelda will probably be able to hold on to most of her wealth, estimated to be far in excess of $2 billion.

The outlook in the Philippine case has changed dramatically since February 1986, when Corazon Aquino swept into power and the Marcoses were swept out. Back then it seemed as though the new government would have little trouble recovering the Marcoses' far-flung assets.

The Aquino government won its biggest court victory in 1986 when a federal district court in Los Angeles issued an order preventing the Marcoses from selling any of their assets—not only in California but anywhere in the world. How could a U.S. court claim jurisdiction over foreign leaders like the Marcoses? On the somewhat flimsy grounds that the Marcoses had invested $30 million to $40 million in two California banks.

Flimsy or not, the court order was affirmed two years later by the U.S. Ninth Circuit Court of Appeals in San Francisco. Significantly, the appeals court indicated that the Marcoses' funds were not protected by the Act of State doctrine. That doctrine had been used for years to prevent U.S. courts from reviewing any actions that foreign leaders took while operating in their official capacity. It really comes down to a matter of national sovereignty—the idea that no nation has the power to make another nation subject to its laws.

Why didn't the doctrine apply to the Marcoses? The federal appeals court ruled that the various misdeeds in question had nothing to do with Marcos' position as president. Wrote Appelate Judge John Noonan, "Our court have had no difficulty in distinguishing the legal acts of a deposed ruler from his acts for personal profit. . . . [These latter acts] are as adjudicable and redressable as would be a dictator's act of rape." The U.S. Supreme Court in effect agreed, refusing to hear the case.

Faced with such court rulings against him

Lisa Quinones/Black Star

Imelda Marcos goes to court with lawyer Gerry Spence
Will the jury sympathize?

Imelda Marcos' flamboyant defense attorney, Gerry Spence, has decided to play for the jury's sympathy. He tries to portray his client as the victim and suggests she wouldn't have any idea whether her husband was looting the Philippine treasury.

Spence is also ignoring the California courts' stance on the Act of State doctrine; he claims that since Ferdinand Marcos declared martial law in 1972, all his actions were official and therefore exempt from review in a U.S. court. This strategy was clear when he talked to FORBES before the trial started in early April. Said he, "If Mrs. Marcos is going to be tried, she should be tried in the Philippines."

Gerry Spence knows that criminal trials in the Philippines, as in the U.S., can take place only with the defendant present, and he also knows that the Aquino government is deathly afraid to allow Imelda to return to the country where she and her late husband remain popular. Thus all action against Mrs. Marcos in Philippine courts has been civil, not criminal. And this has effectively prevented the Aquino government from going after the Marcos booty as a whole. Instead, Aquino's prosecutors have at least 35 separate cases against the Marcoses that are bogged down in the cumbersome civil process.

Even if the U.S. wins its case against Imelda in New York—or the Philippine civil cases miraculously come to a quick conclusion—she will hardly lack for shoes or the other baubles she so prizes. Most of her money is believed to be held outside the U.S., perhaps in Austria, Luxembourg or the Cayman Islands as well as in Switzerland. So far only about $700 million has been uncovered—about $400 million in Swiss bank accounts, some $100 million in U.S. assets and $200 million in the Philippines. The Swiss government has agreed to freeze the $400 million on deposit with Swiss banks, and thus far lower Swiss courts have indicated that the Aquino government has the right to the funds—but only if a judgment against Imelda Marcos is handed down by the Philippine Supreme Court. That could take years.

The solution? Some legal experts favor an international treaty that would force all signatories to hand over banking information in cases where deposed dictators or international fugitives have stashed illegally obtained funds. Says Harvard law professor Abram Chayes, who has advised the Aquino government, "A lot of this money is simply not going to be recovered." So what's new? ■

KG

May 31, 1990

Kanematsu USA Inc.

has acquired

Diemakers, Inc.

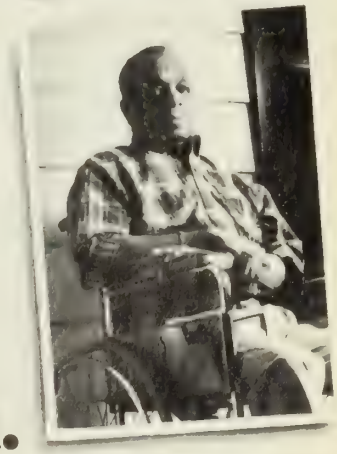
The International Harvest Group,
of Delaware, Ltd

30 Broad Street • New York, NY 10004
(212) 480-1100

IHG acted as financial advisor to Kanematsu USA Inc. and assisted in the negotiations. IHG is a private investment bank specializing in corporate finance and crossborder advisory services

IHG

Stanley Spencer had a stroke.
It came from high blood pressure.
If only he had listened to his doctor.
Now he can't even talk to him.



Stanley Spencer's stroke didn't have to happen.
He should have taken his medicine, and stayed on his diet.
If *you* have high blood pressure, listen to the doctor.

It's your health. It's your life. It's your move.

The National High Blood Pressure Education Program
The National Heart, Lung, and Blood Institute, National Institutes of Health, Public Health Service, U.S. Department of Health and Human Services

Computers/ Communications

It used to be that only scientists needed computers with strong math skills. Now brochure writers and interior decorators need them. Good news for Weitek Corp.

How fast can you multiply?

Kathleen K. Wiegner

RAYMOND, the idiot savant in the film *Rainman*, is a whiz with numbers. Asked to extract the square root of 2,130, he answers 46.15192304 after a moment's hesitation. A brain like a computer, you say.

Wrong. Until recently, only very specialized computers—like the supercomputers used to keep track of the weather or nuclear reactions—were really good at math. Most computers are best at other kinds of data processing; moving information around and making "and/or" and "yes/no" decisions. Word processing, record keeping and text editing put a demand on logical but not on arithmetic abilities.

But arithmetic is now beginning to pop up in the unlikeliest of places. Desktop publishing is one of them. The old dot-matrix printers didn't do any number crunching. They had a library of letters stored in a memory chip as dot patterns. Simple, but very inflexible. If you wanted a bold, italicized or larger letter on your letterhead you had to have that other style of letter stored in memory.

Then along came Adobe with its PostScript software, which describes the outline of letters in terms of equations rather than a matrix of dots. When told by the computer to print an italic letter H of a certain size, a modern laser printer calculates from the appropriate equations the boundaries of each curve defining the edge of that H. It sends that information to the laser engine, which blackens in the area between the outlines. A regular H or a bold H are described by different equations. Creating just one alphabet may take up to 10 million calculations, and you don't want to wait all day for your letterhead. So the laser printer must have a very fast calculator built in.

Graphics users, too, need a lot of arithmetic power. Such a customer might be an interior decorator moving furniture about on a color terminal or a plastic surgeon contemplating what a nose job will do to a patient. When you get to a moving 3-D image with detailed shading, the computer must do 300 million computations a second. The day may not be far off when televisions reconstruct color images from tightly compressed clumps of data, using similarly intense bursts of arithmetic.

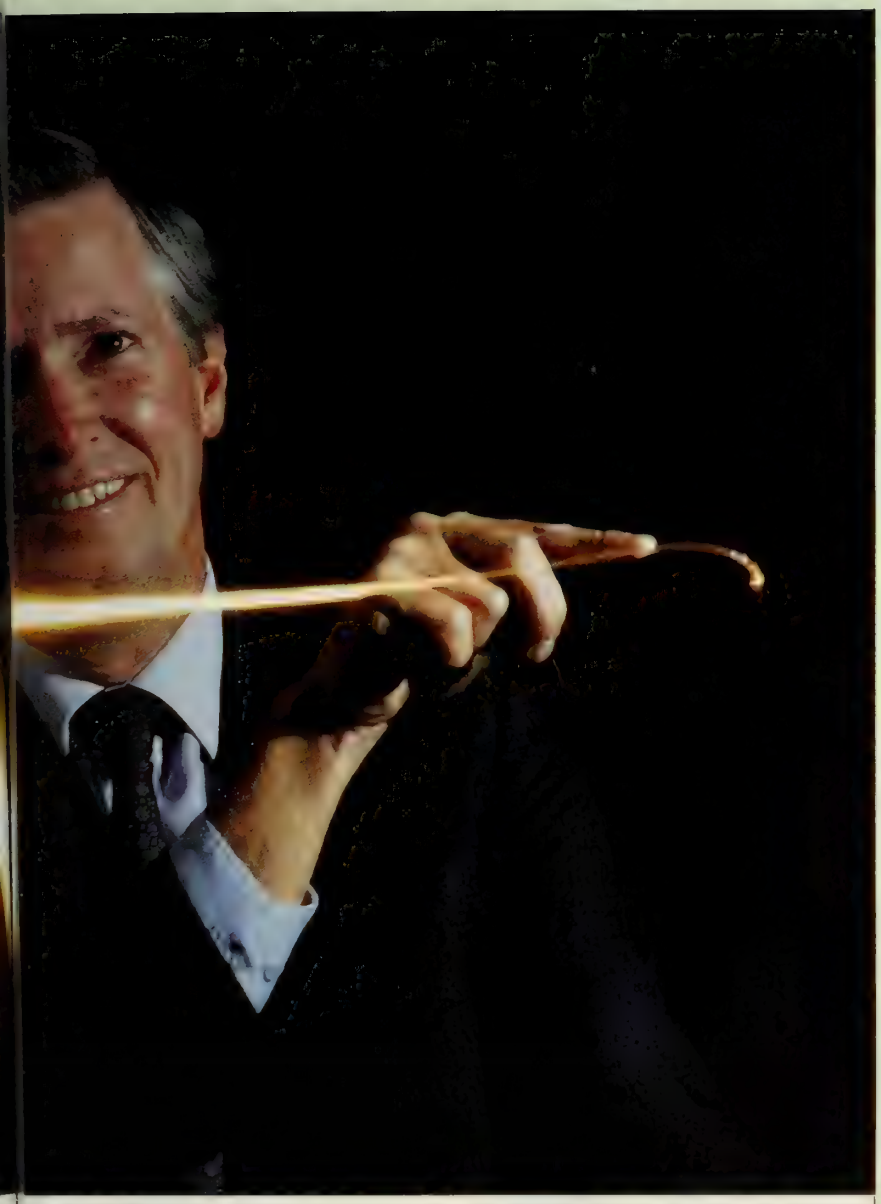
This is where Sunnyvale, Calif.-based Weitek Corp. comes in. (The name is from the Chinese word "wei," meaning "very small.") Weitek sells number crunchers on chips. These specialized silicon calculators can either function in groups linked together to provide near-supercomputer-like power for certain specialized tasks or be installed as single chips right alongside the central microprocessor of a home computer. Popping a $1,000, 25-megahertz Weitek math chip into an NEC 386DX personal computer, for example, doubles or triples the machine's number crunching power, to 4 million to 5 million computations per second. If you intend to do a lot of graphics work this chip is a good investment.

Sudhir Vaikkattil/Sipa

Let's pause here to define speed in a computer. One measure is how many million instructions per second it can execute—the familiar "mips" of mainframe shoppers. In a classic data processing setting, these instructions are largely such mindless tasks as fetching an item from memory or adding 1 to a counter.

Heavy arithmetic users are more interested in another measure of speed. This measure is millions of floating-point operations per second, a.k.a. megaflops. Here, an operation is a multiply, divide, add or subtract.

The phrase "floating point" refers to a scientific style of number in which the location of its decimal point is stored separately from its digits. Floating-point operations—flops—are a tip-off that the speaker



'eitek Chief Executive Arthur Collmeyer
elping computers raise their math scores.

ıres more about raw arithmetic pow- than any other measure of speed.

Now hold on to your seat. Weitek's stest chip does 40 megaflops, equiv- ent to the floating-point ability of a . million supercomputer. Weitek ans to announce a chip this summer at will do 120 megaflops.

Don't Intel's or Motorola's micro- ocessors have the smarts to do this nd of math? Most of them don't. ntil last year, when Intel introduced ; 486 model, microprocessors were eoccupied with the mundane in- ructions of data processing, the step d fetch it, the adding 1 to a counter. ıere was little room left on the chip : heavy, flops-type math. The Intel 6 does incorporate floating-point ıth capability. But even this chip ıves customers of some really num- r-intensive applications thirsting for a math boost. Hence a strong market for Weitek's add-on number chips.

Weitek math processors also help speed up already speedy workstations. Every Sparcstation from Sun Microsystems uses a Weitek chip. Toshiba's new laptop engineering workstation, the Sparc LT, has a Weitek chip designed in. Silicon Graphics, Compaq and Hewlett-Packard are other Weitek customers.

And so the numbers that show up in Weitek's financial reports (the company has been public since 1988) are very impressive. From 1985 to 1989 sales tripled, to $49 million, and net income went from a loss of $770,000 to a profit of $6.8 million. For the first quarter of 1990, both revenues and earnings increased 42% over the year earlier.

There's a reason for this gush of profits. Weitek's chips average $200 apiece, against $1.24 for the chip industry in general. As for competition, Intel makes an add-on flops chip, but it's not as fast as Weitek's. Unlike Intel, Weitek doesn't even tie up a lot of capital to get its output. It spends richly on designing the chips, then farms out manufacturing to Toshiba, Matsushita and Hewlett-Packard.

Weitek's challenge is to protect its lucrative niche as that niche turns into an industry. Intel, 60 times Weitek's size, lately has become more aggressive in pushing its own math chips. But at least Weitek is competing in a growing market. Says Arthur Collmeyer, the 49-year-old electrical engineering Ph.D. who runs Weitek: "We believe we serve a market that never has enough."

An end to the jaggies

The slickest laser printers store letters not as fixed patterns but as equations. Equipped with a quick math chip, such as one made by Weitek, the printer calculates the outlines of the letter and blackens the space in between. These cubic polynomial equations are smooth as well as flexible. They generate letters in any size or at any angle.

$$\hat{F}_x = f^{(0)}(0) + k\left[h^1 f^{(1)}(0) + \frac{h^2 f^{(2)}(0)}{2!} + \frac{h^3 f^{(3)}(0)}{3!}\right] + \frac{k^{(2)}}{2!}\left[h^2 f^{(2)}(0) + h^3 f^{(3)}(0)\right] + \frac{k^{(3)}}{3!}\left[h^3 f^{(3)}(0)\right]$$

$$\hat{Z}(t) = (1-t)^3 \hat{Z}_0 + 3t(1-t)^2 \hat{Z}_1 + 3t^2(1-t)\hat{Z}_2 + t^3 \hat{Z}_3$$

Commentary by Richard A. Shaffer

DON'T MISS OUT ON VIDEOGAMES

Walt Disney turned motion into emotion, and on that talent he and his successors built a business that has a market value of $17 billion. The pervasiveness of what Disney achieved using an established technology, motion pictures, is a reminder of how far we have to go with the new technology of our day, computers. Although it has been with us for more than a quarter-century, computer entertainment is still mostly for adolescent males. Arcade games and home computer games have achieved nothing like the near universal popularity of *Bambi, The Little Mermaid* or *Cinderella*.

What will turn computers into fun for the whole family? Perhaps something to do with fiber optics, digital television or compact audio discs. Perhaps the future home entertainment center will be one of those multimedia machines that Apple Computer, IBM and Microsoft like to talk about—inexpensive personal computers that incorporate stereo sound, high-quality graphics and full-motion video.

Who knows? For now, these technologies are much too costly for our dens and living rooms. Prices will fall, however, and when they do, the best investments will be entertainment software companies. For history will repeat. In Hollywood the big profits go to those who make the movies, not to those who make the film or the cameras. Again the big winners will be those who produce the programs, not those who produce the hardware.

To date, the software winners are Japanese. The biggest so far is Nintendo. At the retail level, annual U.S. sales of the Nintendo Entertainment System have grown to about $3 billion since the game machine came on the American market five years ago. Two other Japanese companies, Sega Enterprises and NEC Corp., have become important, too.

There also are plays, however, in a few publicly traded American

companies: Acclaim Entertainment, Electronic Arts, Mediagenic, Sierra On-Line, Software Toolworks and possibly Atari.

These are gambles. All but one of the six (Sierra On-Line) either has a recent record of losses or is trading at a very steep multiple. They are all thinly traded, and the gamble is compounded by the fact that computer entertainment is a hits business. As the potential increases for a big score in the mass market, so does the potential for the sudden death that is so familiar in the toy industry. Indeed, the boom in videogames would seem headed for another bust soon. Doesn't every teenage boy with any interest in such diversions already have one? Are we headed for a replay of the early 1980s when a previous videogame bubble finally burst, costing investors millions?

I think not. A transition is in progress that could keep sales climbing. As game machines built with 8-bit microprocessors begin to fade, here come the 16-bit machines, which offer faster action, longer play and more excitement.

Sega and NEC already are selling 16-bit game machines in the U.S., which have been well received. Nintendo will be selling one in Japan later this year, and Atari is said to be developing one as well. If marketing is done right, boys who own the old game systems will want the new one. The superior graphics, sound and video of the new systems should attract new customers as well. Additionally, I think the higher prices for 16-bit systems will force Nintendo and the others to move beyond action games.

Rather than worry about the future, Software Toolworks is concentrating on the current Nintendo system. At the Consumer Electronics Show in early June, Toolworks introduced the first of several products that it hopes will improve the 8-bit Nintendo system and extend its life.

The new product, called Miracle Piano Teaching System, is a game attachment that gives piano lessons. That may not seem like much, but it (and the potential of similar products later) has Wall Street excited. The company expects to ship 150,000 Pianos this year, which by itself would raise revenues 50%.

In recent months, shares of Toolworks have doubled, to 23, on talk about the new Nintendo products. That's up from a low of 4 within the last year. Similarly, hopes of a Nintendo hit or two have raised shares of Electronic Arts by 75%, to 16. Sales of the company's computer games have been growing a slow 5% in recent quarters, but now Electronic Arts is attacking the 8-bit Nintendo market and plans to move to the 16-bit level by pursuing the Sega Genesis market.

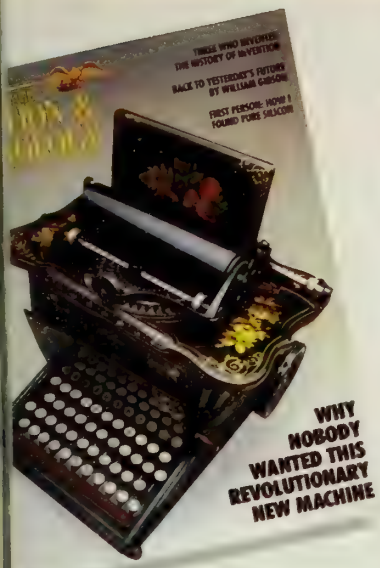
Astounding as those price increases seem, even more rapid growth may lie ahead as game companies experiment with audio disc technology. The idea of using compact audio discs to store computer information has been with us a half-dozen years. Machines to play these modified discs, however, have been too expensive. But prices are coming down, and some game machines may be able to use ordinary compact discs. The addition of compact disc storage will allow developers to produce bigger and better programs and will provide a cheaper delivery medium.

Although Mediagenic, formerly Activision, is exploring the area, as is Sierra On-Line, Electronic Arts seems the most convinced of big things ahead for compact discs and game machines.

It could well be that a marriage of the computer and compact disc will do for computer entertainment what sound did for Hollywood. Investors who get into the right stocks early may find, one Christmas soon, a handsome present under their trees. ■

Richard A. Shaffer is founder of Technologic Partners, a technology consulting company in New York City, and publisher of Technologic Computer Letter.

COME BACK TO THE FUTURE...

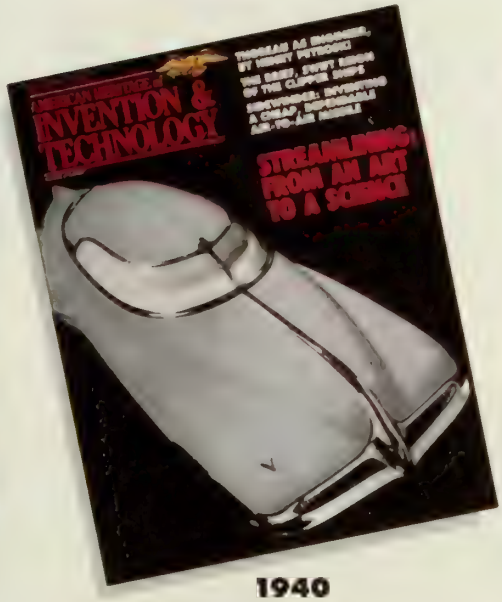


1874
/orld's "First Word Processor."

1932
The Letter That Launched Modern Aviation.

1934
The Diesel Revolution.

1939
ilding the Hydroelectric Future.



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Science & Technology

Edited by Gary Slutsker

The Soviet Union cuts way back on most conventional arms but pushes ahead with nuclear submarines and other forms of high-tech warfare. What's the game? How should the U.S. respond?

The ultimate weapon?

By Subrata N. Chakravarty

JOHN KEEGAN, the brilliant British military historian, recently wrote: "The submarine . . . is the instrument of ultimate nuclear deterrence between the superpowers, holding at risk their cities, industries and populations as it circles their shores. It is now also the ultimate capital ship, deploying the means to destroy any surface fleet."

Just as in World War II, when the carrier replaced the battleship as queen of the sea, Keegan recognizes that nowadays the modern nuclear submarine holds primacy not only over aircraft carriers but even over land-based intercontinental ballistic missiles as the ultimate means of delivering destruction.

But who cares about ultimate weapons? Soviet President Mikhail Gorbachev has declared peace and the U.S. Congress is busy debating how to spend the peace dividend.

Well, even with the Soviet economy in collapse, Moscow clearly cares about ultimate weapons, submarine warfare in particular. While the Soviets junk tanks and demobilize infantry, Moscow's spending continues strong on advanced jet fighter technology, on satellites, on ships and missiles. And submarines, especially submarines. U.S. intelligence officials have concluded that Soviet submarine construction shows no signs of slowing. This year the Soviets are expected to add at least nine submarines to their undersea armada, as against three for the U.S. What's more, the latest generation of Soviet subs is far more capable—and deadly—than the ones that went before it.

Glasnost or not, the Kremlin would dearly love to have the ability to slip submarines undetected off U.S. shores and lock the subs' nuclear missiles onto American cities and factories at such short range that no warning would avail. Superquiet Soviet subs could also easily interdict the sea-lanes that tie the U.S. to the rest of the world. Not that the Soviets plan to use such power; but having it would be a bargaining card that could affect the world balance of power. Says Captain Richard Sharpe, editor of the authoritative *Jane's Fighting Ships:* "I believe that the Soviets would have no difficulty at all in getting sufficient nuclear attack submarines out into the Atlantic to bring the West to its economic knees." The Soviets understand the power game, even if the U.S. doesn't.

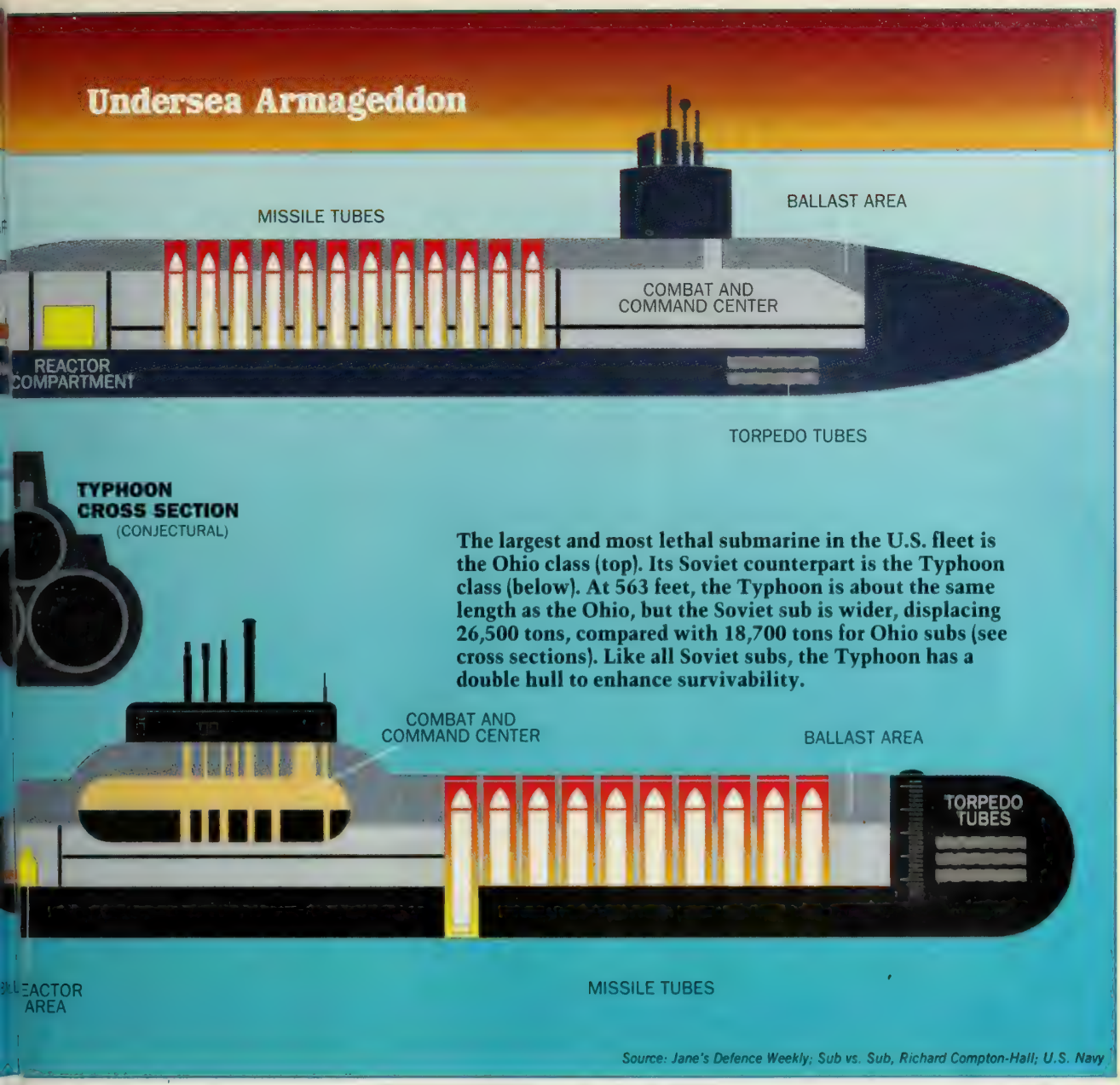
Nor is submarine technology out of reach of vicious dictatorships like those in Syria and Libya. Modern submarines—albeit run not by nuclear power but by electric and diesel engines—are purchasable on the open market. And that could be dangerous for the U.S.

But, of course, the Soviet threat is the clearest. A few years back one of the finest U.S. attack subs, the *Augusta,* moving along in its quietest mode, was tracking a Soviet sub. Suddenly, the *Augusta* hit another object. That other object was never officially identified, but one naval analyst swears that it was a second Soviet sub—likely laden with ballistic missiles. He reasons that this Soviet

sub was so silent that the *Aug*
had no idea it was even there.
fered that version of the inci
Vice Admiral Daniel Cooper, a
tant chief of naval operations fo
dersea warfare, sits back in his
tagon office and smiles. But he s
fastly refuses to discuss the ma

A U.S. naval authority once
scribed modern submarine warfa
these terms: Imagine a room as
as a football field but pitch-black
with thick carpeting. Inside the r
two people armed with daggers
one another. The one with the q
est tread and most acute hearin
the better chance to win, becau
detects his opponent before the
nent detects him. A flash of a
and the battle is over.

A submarine in the Atlantic
cific Ocean seems an even s



The largest and most lethal submarine in the U.S. fleet is the Ohio class (top). Its Soviet counterpart is the Typhoon class (below). At 563 feet, the Typhoon is about the same length as the Ohio, but the Soviet sub is wider, displacing 26,500 tons, compared with 18,700 tons for Ohio subs (see cross sections). Like all Soviet subs, the Typhoon has a double hull to enhance survivability.

Andy Christie-Forbes

ject than a person in a pitch-dark om the size of a football field. The st submarine to slip through the emy's antisub defenses delivers its issiles and torpedoes first.

For decades American submarines ve held a distinct advantage over e Soviets'—in technology and capa- lity, and perhaps most important, in eir ability to move silently and to tect the presence of an enemy craft. t now there is a feeling that the S. advantage is shrinking.

An indication of how seriously th sides take submarine warfare n be seen from the fact that the ree most recent U.S. Navy chiefs naval operations are all submarine terans: Admiral James Watkins, , who went on last year to become cretary of Energy; Admiral Carlisle ost, 60, who retired last month; and Admiral Frank Kelso II, 56, who has just assumed the post.

Another veteran submariner is Soviet fleet admiral Vladimir Chernavin, 62, who is now in charge of the entire Soviet navy. Chernavin commanded one of the Soviets' first nuclear submarines, which put to sea in the late 1950s.

Despite all Gorbachev's vexing problems, he has one clear advantage when it comes to military spending. He can decide which military programs to trim and which ones to keep strong, and he can make his decisions on the basis of strategy and technology rather than on pork-barrel strategy and domestic politics. His bustling submarine program indicates he is doing just that.

The U.S. Congress and the Pentagon, by contrast, are dithering about U.S. defense policy. Neither is willing to make the tough decisions about future needs. Many congressmen, preoccupied with saving defense jobs in their home districts, seem to be leaning toward cutting all the defense services equally. While the Soviets trim fat and flab from their military spending, we seem intent on cutting muscle as well—all the while keeping everybody's trough full.

Right now one of the most curious elements of Soviet submarine technology is in an unusual Volkswagen-size pod on the tail of the Soviets' newest attack submarines. The U.S. Navy and some civilian naval analysts think it houses an awkwardly designed sonar device. But others view it as far more ominous. Captain William Ruhe, until recently editor of the Alexandria, Va.-based magazine

Now that everyone agrees how a computer should wor

Judging by what you see on magazine covers these days, the world now wants what the Macintosh® computer has always had. And, suddenly, the idea that a personal computer should work the way people do has been embraced by virtually every major player.

Well, since "Mac-like" is the promise on every lip, this might be a good time to point out just what a Mac® is like.

What makes a Macintosh a Macintosh is not just cheerful icons, a mouse, pull-down menus and other surface manifestations. A Macintosh is a Macintosh from the inside out. Conceived from the chip up to work intuitively and visually.

Because it's truly consistent, the entire family of Macintosh personal computers all run the same software with identical point-and-click simplicity.

Because it's a true system, Macintosh printers and other peripherals all connect together quickly and logicall Just plug them in and turn them on.

Because we engineer both the hardware and its ope ating software, Macintosh runs with the smooth speed and precision you'd expect from any perfectly integrated desig

And because Macintosh isn't a "graphical" shell grafted on top of a character-based system, it doesn't expend lots o expensive computing power trying to do something it wasn't designed for.

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Science & Technology

Submarine Review, and Commander Richard Compton-Hall, a British naval analyst and author, among others, believe the pod *(see pictures, p. 91)* to be a magnetohydrodynamic (MHD) propulsion system. That is the system that Tom Clancy called the caterpillar drive in his bestseller *The Hunt For Red October*, the book from which this spring's hit movie was adapted.

Based on a powerful superconducting magnet, such a drive has no moving parts, so it would allow a submarine to move in virtual silence. The U.S. is doing some low-level research in the field, and the Japanese are working on it for commercial applications. But the Soviets are known to be working intensively on it. "The U.S. Navy is not interested in MHD propulsion because they don't believe it's feasible," says Ruhe. "Therefore, they don't believe the Russians could be working on it."

The pod's real purpose probably will not be known for years. But the idea that it is a result of poor design seems implausible. "Whatever it is, they're clearly happy with where it is," says a naval analyst and former submariner, pointing out that it first appeared on a sub launched in 1978. His point: A design flaw could easily have been corrected when the next generation of Soviet submarines appeared in 1983.

From the start, the Soviets and the U.S. have had completely different philosophies about designing submarines. The Soviets stressed speed, diving depth and survivability in battle—meaning the ability to take a hit and not sink. (Survivability is the reason all Soviet subs today have double hulls.) The U.S., on the other hand, has emphasized silence, reactor safety, and more silence. "Quieting is *the* most important aspect of submarines," declares Vice Admiral Cooper. "You talk about stealth. We were stealthy before we could even spell it right." Two people groping for each other in a blackened room.

The Soviets may have benefited from their early failures. What that means is that the first U.S. submarine design was so successful that the U.S. stayed with it. The Soviets weren't as lucky, so they have been more adventurous, experimenting with different propulsion systems, designs and materials to explore different capabilities. In the past two decades the Soviets have built about 20 different classes of submarines, according to Norman Polmar, an authority on the Soviet navy; the U.S. has built just 3. Says a former CIA analyst, "The Soviets say the Americans successed their way to mediocrity."

Until the late 1970s the Soviets didn't seem to care much about being quiet. But their Victor III-class attack sub, which first appeared in 1978, was significantly quieter than earlier subs. There followed in 1985 the Akula-class attack submarine, 350 feet long and believed to be titanium-hulled. The Victor III was 15 years behind the best sub in the U.S. fleet in quietness;

Brian Wolff

Open missile bays on an Ohio sub
Enough to destroy a nation.

the Akula-class sub narrowed that gap considerably. Admiral Lee Baggett Jr., former commander of NATO forces in the Atlantic, reportedly said in 1986 that the quietness gap "has now been narrowed to three or four years at the maximum."

Some, including John Engelhardt, a naval architect and former U.S. Navy analyst, believe that the next generation of Soviet submarines, due out before the end of this decade, will stay close on America's heels, perhaps with the use of active sound cancelation techniques—producing white noise to mask the noises that could be picked up by passive sonar. That could neutralize the principal advantage of U.S. submarines, which is highly advanced listening equipment.

All this illustrates an important point about the Soviet Union: While its economy is a mess and its industrial production primitive, the society i capable of high-technology achiev ments. If the milk is diluted, pollute and watery, the cream can be qui rich. Time after time, the U.S. Nav and intelligence community have u derestimated Soviet undersea a vances, dismissing new features as i effective, misapplied, impossible just plain stupid, only to find lat that they served a purpose in the Sov et navy that the U.S. simply hadn understood.

Whatever it has done elsewhere i the Soviet Union, perestroika h had little effect on the periscope The Soviets' sixth Delta IV w launched just last year, for exampl and there is no end to the constru tion program in sight. A ballisti missile sub, the Delta IV carries 1 SS-N-23 missiles, each with up to 1 independently targeted reentry veh cles, each of which is capable of d stroying a reinforced target like missile silo. That missile's U. counterpart, the Trident II, was ju fitted onto a submarine for the fir time this spring, and the Trident pr gram could be slashed before it ge much further. Each missile costs $2 million, and the peace dividend, aft all, has to come from somewhere.

According to *Jane's Fighting Ship* the Soviet's active submarine fle has 131 nuclear-powered attack sub These are designed to attack ships an enemy submarines but are capable well of hitting shore targets within limited range. The Soviets also hav 136 diesel-electric subs and 63 nucl ar-powered ballistic-missile-carryin subs, for a total of 330 submarine Opposing that massive force are 9 U.S. attack subs (8 of which will b retired under the current defense bu get) and 34 ballistic missile subs. Vi Admiral Cooper feels he needs a fle of 100 active attack subs and 24 balli tic missile subs.

Until fairly recently it was believe that the American edge in qualit compensated for the Soviet lead i numbers; now many are not so sur "If you ask which is better, a U. surface ship or naval aircraft or i Soviet counterpart, there is no arg ment, the U.S. is ahead," says Polma "But with submarines, there's a d bate." Admittedly, many of the Sovi submarines are obsolete ships built i the 1960s, but they still represent formidable force. Moreover, Rear A miral Thomas Brooks, director of n val intelligence, recently told Co gress that virtually all of the subs Go bachev has been publicly "retiring are, in fact, inactive reserve su which haven't seen service in mo

:han a decade.

In 1988 the Soviets launched eight submarines—four nuclear and four liesel-electric, according to Rear Admiral Brooks. Last year another nine subs were launched. And so far in 990, says Vice Admiral Cooper, four nuclear submarines have already been aunched. Another five or six submaines of various types are expected by he end of the year.

By comparison, the U.S. Navy comnissioned four submarines last year nd will add another three to the fleet his year.

Yet U.S. sub programs are under hreat from the budget ax. At an inial cost of some $2 billion, the cost of he Navy's new Seawolf-class attack ubmarine is admittedly staggering. he Navy is planning for the cost to ecline some 40% in constant dollars s the submarine class begins steady roduction at the General Dynamics hipyard in Groton, Conn., and at the enneco shipbuilding operation at lewport News, Va. The Navy hopes o build 29 of the Seawolf subs, the rst of which will join the fleet in 995. But between post-Cold War euhoria and severe budgetary conraints, it is a particularly tough time be pitching an expensive sub proam on Capitol Hill.

Ultimately the Seawolf class will e built because there is no other degn on the drawing boards. But the kelihood of all 29 being built is reote at best. Stretching out the proam is poor economy, because as the umbers decline, the cost per sub ses sharply.

Even submarines do not operate in a icuum. They can be defended ainst. It was, after all, development the destroyer and later of antisub rcraft that helped the Allies to unter the German submarine mene in both world wars. Faced with e vastly improved Soviet subs, the S. Navy has designated antisubmaie warfare as its highest priority in hting wars.

But here too the competition is owing more fierce. For years, noisy viet subs were easily detected by ssive sonar sensors (which detect und without emitting any) embedd in the ocean floor, carried on subarines and surface ships, and opped from aircraft. Once again, the S.' very success made it complacent d overly dependent upon passive nar technology.

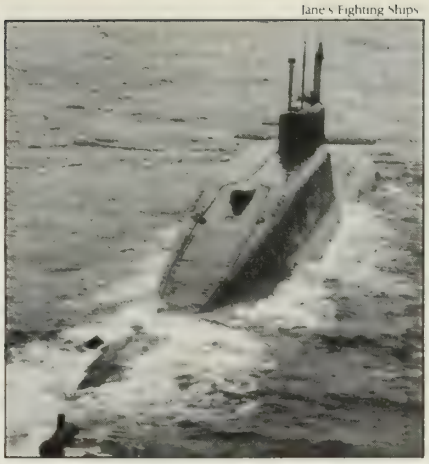
The Soviets, faced with having to tect extremely quiet U.S. submaies, have spent years working on nacoustic detection systems: tracks submarines by the disturbances they create in magnetic and electrical fields and the minute wake and thermal energy they emit as they move through the ocean. Although U.S. interest in such detection systems has increased, the research remains only marginally funded and the Soviets retain a lead, according to experts.

The U.S. does, of course, pose a threat to the Soviet Union with its own submarines. That's why the Soviets keep seeking agreements limiting sea-launched cruise missiles—to negate the flexibility and capability of the U.S. sub fleet. Peace may be at hand, but Gorbachev, like a prudent leader, measures capabilities rather than speeches and good intentions.

If the U.S. lets the Soviets get ahead in underwater warfare, it will be putting at risk the most effective leg of its strategic triad. Rear Admiral Brooks has testified that the Soviets probably won't be able to detect U.S. ballistic subs anytime in the 1990s. But by the year 2000, when the Soviets might well be able to find U.S. submarines, the U.S. will have 70% of its nuclear retaliatory capacity traveling undersea, and some of our subs will be a noisy 20 years old. The Soviets, meanwhile, are likely to continue building highly capable, increasingly quiet submarines in large numbers. They will push without stint their antisubmarine development.

In the concluding chapter of his *The Price of Admiralty*, John Keegan wrote: "Command of the sea in the future unquestionably lies beneath rather than upon the surface." Especially for a nation as dependent upon maritime power as is the U.S. Can any sensible person believe that a mere shift in command of the Kremlin makes control of the seas irrelevant? ■

Jane's Fighting Ships

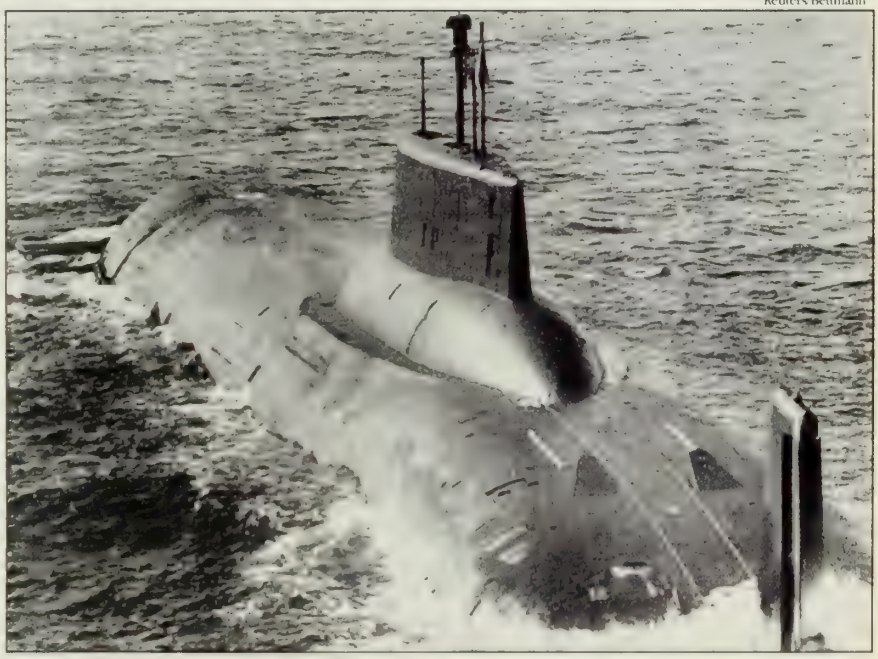


Soviet Delta IV
Newest, most accurate.

U.S. Dept. of Defense

Soviet Victor III
The mystery pod.

Reuters Bettmann



Soviet Typhoon
The largest undersea craft ever built.

Commentary by Peter Huber

THE LAWYERS VERSUS THE HOMELESS

It has become "a rich man's drug for a poor man's disease," remarks one observer. The drug is Clozaril, developed by Sandoz Pharmaceuticals in the early 1960s. It is now recognized as a breakthrough therapy for schizophrenia, which means Clozaril could do far more for the homeless in this country—many of whom are schizophrenic—than all of the endless posturing on the issue from Washington. Congress could make the drug widely available to the poor with a one-sentence, zero-cost bill. Everyone would benefit, except lawyers. So count on it that nothing whatsoever will be done.

Here's the picture. Schizophrenia afflicts over 2 million Americans, who are often completely destitute because they cannot work or sustain contact with family and friends. Many of them thus spend decades in squalid institutions or end up on the streets.

Clozaril, by all accounts, does wonders. It is the first drug to treat the schizophrenic's apathy, anxiety or catatonia. It produces none of the serious side effects of conventional antipsychotic drugs. But 1% or 2% of patients on Clozaril will develop a rare and potentially fatal blood disease. Careful monitoring, however, can identify these patients before they are seriously harmed.

In a rational world, Clozaril would be classified a prescription drug, to be distributed with a careful warning to doctor and patient, and that would be that. Many lives that would have ended in misery on the streets would be saved. Tragically but quite predictably, some patients would get the medicine without adequate monitoring, and some fraction of those would then be killed by the treatment. Sandoz would continue to work calmly with the Food & Drug Administration and prescribing doctors to prevent such accidents. The risk would never be completely eliminated, but accidents notwithstanding, the world would be much improved.

Peter Huber, a senior fellow of the Manhattan Institute, is the author of Liability: The Legal Revolution and Its Consequences.

This is in fact pretty much what has happened in Europe. Clozaril was introduced in the 1960s, then withdrawn when the fatal side effects first became apparent. After further tests, the drug was reintroduced; by mid-1989 it was available in Switzerland, West Germany, Austria, Denmark, Finland, the Netherlands and Portugal, and was undergoing clinical trials in the U.K. The cost is reported to be as little as $30 per week.

The American scene is rather different. The FDA got around to approving Clozaril in February 1990, almost three decades after it was first tested in Europe. But Clozaril is going to cost U.S. patients $175 a week. That's $9,000 a year, which means that thousands who need the drug aren't going to get it. By current estimates, Clozaril is now available to fewer than one in ten patients who might benefit from it.

No one wants to say this openly, least of all Sandoz, but you can charge this mess to the American legal system. The law used to insulate drug companies from the misuse of prescription drugs with a simple, reliable rule: Once the manufacturer supplies a proper warning to the doctor, subsequent misuse is the sole responsibility of the doctor, pharmacist or patient. But in its boundless folly, today's American law insists that drug companies remain broadly liable for misadventures involving their products, even if the fault rests far downstream.

Sandoz has therefore decided to do precisely what the U.S. legal system demands: It is taking responsibility not just for the drug but for every detail of its distribution and use. Sandoz will market Clozaril through a health agency, Caremark Homecare Inc., which will supply the drug only in exchange for a weekly blood sample. Courier connections between Sandoz and Caremark outlets allow Sandoz to maintain a national, up-to-the-minute database of Clozaril patients. Of course, such things cost.

From Sandoz' perspective, however, almost no cost is too high. Here's what Sandoz must surely fear. It's 1995 and Congressman Henry Waxman has seized on the Clozaril "tragedy" as another opportunity to flail at the FDA. After the first lash or two, the FDA is tearfully considering a complete ban on the drug. In 1996 superlawyer Stanley Chesley assembles a class action on behalf of 1,100 Clozaril users in a federal courtroom in Cincinnati. Thereafter Sandoz' legal department is the fastest-growing division of the company.

For obvious reasons, this is a quagmire Sandoz does not care to explore. Sandoz is understandably reticent about how things might go wrong: A spokesman for the company just delicately points out that the company "simply cannot afford any fatalities."

Thus, yet again, our unlimited right to sue eclipses our right to do more important things. Doctors, pharmacists and patients, in any combination, would readily assume the risk and accept responsibility for Clozaril if they could. But the law no longer affords them any legally effective way to do so. Warnings, waivers, consent forms and such—the traditional ingredients of a binding private contract—just aren't reliably enforced in court anymore, at least not when matters of health and safety are affected.

Anatole France observed that the law, in its majestic impartiality, forbids the rich and poor alike to sleep under the bridges of Paris. Our laws are equally fair. Rich and poor retain an unbounded right to sue anyone (like Sandoz) who might somehow be blamed for hurting them. But as he freezes on the heating grate, the homeless schizophrenic who can't get Clozaril may, in some passing moment of lucidity, wonder whether he wouldn't be better off without his gold-plated right to sue. ■

)n the following pages, you will see an ıdvertisement about Bell Atlantic's disas-er prevention and recovery program.

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Disaster prevention and recovery programs have become vital because of the interdepen-nce among an organization's net-orks, computer and phone stems. Preserving this interdepen-nce is essential for an organiza-n's survival.

In a broader sense the concept of erdependence is assuming an in-easingly important role in our ıerging global civilization. As walls me down, as markets unify and chnology advances, interdepen-nt relationships are being formed oughout the world by govern-nts, corporations, special-interest ups and others in order to pro-ce results greater than can be ac-mplished by individual entities.

A technology available to help us derstand and capitalize upon the erging dynamics of interdepen-nce and cooperation is *telecom-unications*. Its electronic high-ys carry images, information, data l voice among people in the most tant parts of the planet at incredi-speeds. Access to information l knowledge can be instanta-us. What once was far is becom-near; time has become com-ssed. We are living in a world of ultaneously experienced global nts.

'elecommunications helps us to w and comprehend the conse-nces of human actions. It pro-vides us with data to help us identify threats and opportunities throughout the world.

Raymond W. Smith, chairman and chief executive officer of Bell Atlantic Corporation

Telecommunications is itself bound to interdependencies, most notably with computers. A recent report by the Hudson Institute observes: "These technologies are inextricably linked; what is happening in computers is being paralleled in telecommunications. Changes in each industry are linked and driving each other."

The Hudson Institute report notes, however, that in the U.S. there is a fundamental difference between the two industries: the computer industry operates in "virtually the freest market available," while the telecommunications industry is "tightly, and disastrously, hobbled by horse and buggy regulatory mechanisms that seem blind to the 1990s and to the growing competitive threat to American technology."

These horse and buggy regulatory mechanisms, including the artificial relationships imposed by the AT&T Consent Decree and state regulations that act as disincentives to the deployment of advanced telecommunications technology, promote not cooperation and interdependence, but conflict and adversarial relationships between parties whose goal should be the same: to improve the quality of life in the Information Age.

It is ironic that American telecommunications technology, with its enormous potential for fostering interdependence and cooperation, is still hobbled by inappropriate or outdated mechanisms that are incongruous with the emerging characteristics of our maturing worldwide culture.

It is time to unshackle fully the American technology that started the Information Revolution. It is time to remove the artificial barriers that the AT&T Consent Decree imposed on America's most technologically advanced telecommunications companies. It is time to change the way that the deployment of telecommunications technology is controlled in this country. It is time for America to capitalize on the dynamics of our global civilization. ■

Ray Smith

Raymond W. Smith

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some businesses

waste time and effort

running from

department

to department

until finally

to department

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Personal Affairs

Edited by William G. Flanagan

Business class service on intercontinental airlines is better—but more expensive—than ever. Even 6-footers can stretch out.

The middle of the bus

By John Marcom Jr.

THIS FREQUENT FLIER is near 6½ feet long. The airplane se that offers too much legroo has yet to be invented. But, in tl meantime, everything the world's ai lines are doing to improve what th call business class helps.

And they have been busy. Near every major international carrier h been spiffing up its intercontinent flights' business class service of lat Two years ago, for example, Briti Airways, the world's largest intern tional airline, rolled out "Cl World." Since it hit the scene, tl U.K. carrier's business class passeng numbers are up 27%. The high far charged for business class have help the airline post record results on U service while matching its riva rock-bottom prices for seats in tl back of the plane.

The comforts of business cla come at a price, of course. The da when business class cost only the fu economy fare are long gone for mo major carriers. For a round-trip Par New York business class ticket, f example, Air France charges abo 40% over the full economy fare. B tween the U.S. and the U.K., busine class costs up to triple the norm economy fare. But then, compa these fares with first class, which ca be close to double again the busine class fare *(see table)*.

Class distinctions

Despite rising fares, intercontinental business class travel is booming. On some of its new 747-400s, for example, Japan Air Lines has 164 business class seats. Here are current fares of major carriers.

Transatlantic carrier	Round trip New York to:	Full coach	Business class	First class	Total air miles
Air France	Paris	$1,732	$2,418	$4,440	3,635
Alitalia	Rome	1,758	2,702	4,816	4,279
American	Paris	1,742	2,428	4,450	3,635
British Airways	London	1,101	3,316	5,556	3,462
Continental	London	956	3,326	5,566	3,462
KLM	Amsterdam	1,934	2,258	4,015	3,644
Lufthansa	Frankfurt	1,126	2,276	4,178	3,856
Pan Am	London	1,111	3,326	5,566	3,462
SAS	Copenhagen	1,714	1,884	NA	3,856
Swissair	Geneva	1,840	2,340	4,236	3,865
TWA	London	1,826	3,326	5,566	3,462
Virgin Atlantic	London	904	3,326	NA	3,462
Transpacific carrier	**Round trip Los Angeles to:**	**Full coach**	**Business class**	**First class**	**Total air miles**
All Nippon	Tokyo	$1,764	$2,194	$4,200	5,451
Cathay Pacific	Hong Kong	1,872	2,154	3,896	7,246
Continental	Tokyo*	1,764	2,194	4,200	5,723
Japan Air Lines	Tokyo	1,764	2,194	4,200	5,451
Korean Airlines	Seoul	1,444	2,522	4,328	5,976
Northwest	Tokyo	1,764	2,194	4,200	5,451
Qantas	Sydney	1,978	3,760	6,128	7,483
Singapore Airlines	Singapore†	2,148	2,254	4,254	6,216
United	Sydney	1,978	3,760	6,128	7,483

Fares include all taxes and surcharges. *Via Seattle. †Via Tokyo. NA: Not available.
Sources: the airlines and Thomas Cook Travel.

British Airways lounge at Chicago's
BA's business class traffic is u

Most business class trips start with separate check-in counters, and often a departure lounge with soft chairs and a free bar. Drinks on board are free, too, of course. And the wine selections are now as good as what used to be served in the front of the plane. Most important for those 14-hour intercontinental flights, the seats on board nowadays are far, far better than in economy. On a 747, there are six or seven seats across instead of ten, or two-by-two on the upper deck, usually with ample legroom. There's more room for carry-on bags, too. You also get favors (shaving kits and the like) and a menu, tablecloth, and silverware on your meal tray.

The British, unable to surpass the Asian carriers' pampering service, wisely focus on things like seats, food and wine, along with service that is swift and coolly polite.

The U.K.'s Virgin Atlantic, started several years ago by record-industry tycoon Richard Branson, uses its low overhead to offer front-of-the-plane customers—there is no first class—a neat package of extras on flights between London's Gatwick Airport and New York's J.F.K., Newark, Los Angeles, Miami and Tokyo. The extras include unusually good legroom and personal video players. (American airlines is installing similar equipment in first class.)

A recent 12-hour trip on Virgin from London to Tokyo offered so many diversions—lunch, a movie, afternoon tea, music videos, another movie, champagne and snacks somewhere over the Soviet Union, a full breakfast—that this passenger barely found time to sleep. There's even a manicurist on board some flights.

American Airlines' new business class
Leather seats, lobster fajitas.

As Boeing's new 747-400s, capable of even longer nonstop flights, are rolled out, business class inducements will grow. This year has already brought much-touted improvements from several carriers, including Japan Air Lines, United and Air France.

American Airlines, in the midst of a rapid expansion of its international service, is probably the one to watch. It seems determined to win back for the U.S. the reputation for service that Pan Am and TWA used to enjoy. Extra touches in American's new business class cabins include comfortable seats covered in sheepskin and leather, imaginative American dishes like lobster fajitas and an optional "executive meal" served early in the flight for those who want to skip the ritual of the complete service in favor of some sleep.

Besides BA and Virgin, I have recently test-ridden Qantas, Singapore Airlines and Garuda Indonesia Airways. Garuda is a developing airline, not yet in the league of Singapore or Qantas. The Singapore staff is justly famous. Typical touch: A flight attendant noticed a passenger scribbling on the back of the in-flight menu and, unasked, brought a packet of stationery. Singapore will soon rechristen its business section "Raffles Class."

Business class has proved so successful that British Airways is already testing a cheaper "son of business class" service, called Economy Select, which costs the same as full-fare economy. ■

Steve Leonard

Collectors

Sydney Lewis bartered the wares his company sells for a corporate art collection, then depreciated it for tax purposes.

Artful barter

By Christie Brown

THE WORKS OF famous contemporary artists have not always sold for six and seven figures. Andy Warhol used to trade his paintings for movie film and musical instruments. Roy Lichtenstein, Mark Di Suvero and other now famous artists once swapped their works for everything from air conditioners and kitchen appliances to cameras and playpens.

Just ask Sydney and Frances Lewis, of Richmond, Va., who created a very impressive corporate collection of contemporary art through barter. The Lewises founded Best Products Co., the country's second-largest discount cataloger, after Service Merchandise Co., Inc. Best sells some 14,000 name-brand items, mostly appliances, electronics and housewares. From 1962 to 1985, the Lewises swapped about $2.5 million worth of goods with some 800 artists and obtained around 1,600 artworks.

Unknown then, over half of the artists are now represented by galleries. About 20% of Best's total collection is considered top-notch. Experts say the collection is easily worth $5 million today, and most of the artists are still building their reputations.

It began when Sydney Lewis, now

Introducing The Lexus LS 40
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Six years ago, 1400 of Toyota's top engineers set out to build an entirely new automobile. They began by taking two steps.

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Such is the thinking tha the Lexus LS 400.

Take, for example, th thing about this automobile your eyes, its design.

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naged to reconcile aesthetics
/namics, creating an ele-
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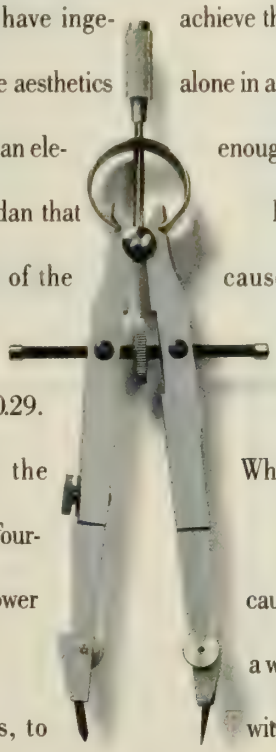

achieve this kind of muscle in a car, let alone in a luxury sedan, would be cause enough to celebrate.

For Lexus engineers, it was just cause enough to come up with another brainstorm.

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You'll find an almost obsessive amount of thought went into other aspects of the car's interior as well.

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After all, not all our top brains are engineers.

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*s U.S.A., Inc. Lexus reminds you to wear seat belts and obey all speed laws. *Est. 18 city/23 hwy. preliminary 1990 mileage figures determined by Lexus. See your dealer for details.*

70, saw a small ad placed by Andy Warhol in the *Village Voice*. It read. "I'll trade my art for anything." Lewis responded, and Warhol agreed to do a portrait of Frances, in return for a color TV set and an industrial vacuum cleaner. (Lewis later reimbursed his company for the goods and added the painting to his personal collection.)

Before long the Lewises were swapping stoves, stereos, cribs, hair dryers and the like with a growing number of struggling artists to create a corporate collection. "Best furnished a lot of artists' lofts," laughs Frederick Brandt, a curator at the Virginia Museum of Fine Arts, who assisted Lewis in the 1970s. Most of the 1,600 trades cost Best less than $2,000 worth of goods, the highest being $5,000 of merchandise for a single painting Bookkeepers at Best set up formal accounts for the artists, who were given a further 10% to 20% discount on any merchandise they purchased.

Of course, the Lewises had to guard against some artists, who offered unsalable works for very salable appliances "The most straightforward was Roy Lichtenstein," recalls Frances Lewis. "Whenever he moved he needed new furnishings, like kitchen appliances, and would set aside something of correct value for us."

Eventually, as the volume of trade grew, the Lewises hired young assistants from New York's highly respected O.K. Harris gallery to assess the works of the emerging artists. Patterson Sims (now chief curator at the Seattle Art Museum) and Carlo Lamagna (now with his own New York gallery) were the conduits for trades with such artists as Elizabeth Murray. Jennifer Bartlett, Nicholas Africano, Ross Bleckner, Wayne Thiebaud, John Chamberlain, Richard Artschwager and Robert Morris.

Photographs by Barbara Kin

Master traders Sydney and Frances Lewis, at their home in Richmond, Va.
Warhol's portrait of Frances cost them a TV and a vacuum cleaner.

Whether any of the artists reported their bartered goods as income to the Internal Revenue Service is anybody's guess. (Technically, they owed income taxes on the value of the goods received.) But Sydney Lewis certainly took full advantage of the tax code.

On the theory that the artworks could be worthless eventually, Best depreciated them over five years. But convincing the IRS that art has limited years of use was no easy task. "The IRS generally takes the position that art has no useful life [and therefo cannot be depreciated]," says Paul dridge of KPMG Peat Marwick.

But Lewis insisted otherwise. "W considered the works decorative c jects for tax purposes, and depreciat them as you do office furniture." T IRS acquiesced.

The Lewises also had to show t IRS that there they had no perso interest in the art. Easily enou done: They had their own private c lection, with such major contemp rary artists as Willem de Koonin Clyfford Still, Ellsworth Kelly a Robert Rauschenberg. These wor were purchased by the Lewises the selves, with cash. (The private coll tion was donated to the Virginia M seum of Fine Arts in 1985.)

The corporate collection, which l decks the Richmond headquarters well as some of its 195 showroo nationwide, is still carried on the B books as decorative furniture. A while it is now fully depreciated, i far from valueless. In fact, when B Products was sold in 1988 to N York leveraged buyout specialists A ler & Shaykin for $1.1 billion, the collection was identified as an ass and now can easily be liquidated Adler & Shaykin without major hassles. Any gains would be taxed income to the new owners, of cour

But it is unlikely that the wo will be sold soon. The artists' repu tions are still growing, and so, p sumably, is the value of the coll tion. And there is the company ima "The collection," says Ross Richa son, a Best spokesman, "is an imp tant part of the company identity."

Sculpture by John Chamberlain, paintings by Louis Poole and Richard Kevorkian
On display at the Best Products headquarters, Richmond, Va.

Forbes

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FYI

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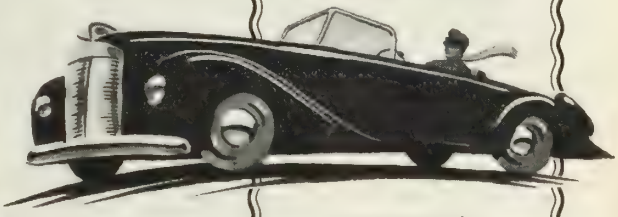

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MARKETLINE

AN ANALYSIS OF WHAT'S CAUSING WHAT IN THE MARKETS

Motorola stock gains on record earnings

Motorola looks like a bomb shelter amid all the earnings explosions that have been going off of late.

Tuesday, the electronics giant said it had record revenue and earnings in the first quarter. Wall Street analysts had expected first-quarter earnings of 88 cents a share. Instead, Motorola delivered net income of 98 cents a share, on $1.07 billion in revenue of $2.53 billion. That compares with earnings of $1.21 million, or 63 cents a share, on revenue of $2.[illegible] billion in the year-ago quarter. Motorola gets hearty cash in the bank. Its stock climbed 4 1/8 to $68 3/8 Tuesday.

You're holding a piece of the rock when you're holding Motorola, says analyst Michael Phelps of Hambrecht & Quist Inc. That's meaning it signed recent earnings bombshells from Intel, Texas Instruments, Lotus, Compaq, Tandem Computers and Businessland Inc.

Analysts predict much of Motorola's good showing to its fast-growing cellular telephone business and healthy semiconductor revenue from the use of semiconductors.

Cellular phones for under Motorola's general systems sector allowed revenue jumped 50% and orders went up 40% over the same period last year. Analysts say cellular phones will sell like hotcakes throughout 1990, accounting for $2.3 billion of Motorola's forecasted $11 billion in 1990 revenue. Motorola's last year was $9.8 billion.

Semiconductors also saw improvement. Motorola chairman George Fisher says there are "promising early indications of renewed strength" in semiconductors. But analysts are still cautious, saying a widespread semiconductor recovery might be longer until year's end. One exception is Andrew Kessler of Morgan Stanley. "We rate the Baby Bells and cellular companies," he says. "There's going to be a lot more good earnings coming in the industry. Keep an eye on Motorola, Intel, Intel, Advanced Micro Devices and Cyprus Semiconductor Corp," he says. Others, however, are keeping their bets on Motorola, where 1990 earnings forecasts range from $4.45 to $5.25 a share vs. $3.83 last year.

Oil stocks slip: Oil company stocks edged lower Tuesday as crude oil prices continued to slide. Steve Hill, Richard Pierce of Sanford C. Bernstein & Co. told Reuters Inc. Liberal earnings are participants in the stock market. Texaco and [illegible] to [illegible]. Other casualties: Kerr-McGee was [illegible] to $31. Amerada Hess [illegible] to $41 1/2, and Amerada Hess gave up [illegible] to $44 [illegible].

— Kathy Rebello

STREET TALK

FOREIGN MARKETS

Last minute selling in Tokyo sent shares sliding down as the yen remained weak. In Frankfurt the shaky Tokyo market and the coming Easter holiday kept trading thin as shares dropped for the second day in a row. Japan's woes also weighed down markets in London and Zurich.

Index	Close	Pts chng.	Pct. chng. from Mon.	Pct. chng. from 1-to-D
Dow Jones Industrials	2731.86	+9.01	+0.33%	-0.66%
Singapore Straits Times	1509.7	[illegible]	0.25%	[illegible]
Paris (CAC 40)	2075.4	-8.5	-0.41%	+3.7%
Hong Kong Hang Seng	2542.1	[illegible]	0.42%	[illegible]
Zurich (Swissindex)	1078.4	-4.5	-0.42%	-6.2%
London (FT-SE 100)	2217.5	10.2	-0.46%	8.5%
Toronto (300 composite)	3994.9	-18.8	-0.47%	-0.4%
Amsterdam (ANP-CBS General)	194.1	1.2	-0.61%	3.5%
Sydney (All Ordinaries)	1611.8	-16.3	-1.97%	-6.3%
Frankfurt (DAX average)	1958.3	-25.4	-1.22%	6.0%
Tokyo (Nikkei average)	33,824.7	-779.2	-2.54%	-23.9%

Source: Reuters

MONEY RATES

	Tues.	6 mo. ago	Yr ago
Prime lending	10.00%	10.50%	11.50%
Fed discount	7.00%	7.00%	7.00%
Federal funds	8.13%	8.81%	9.81%
Mortgage rates			
30-yr. fixed rate (FHLMC)	10.06%	10.10%	11.07%
30-yr. adjustable (FHLMC)	8.56%	8.72%	9.39%
1-yr. fixed ARM index*	8.29%	8.38%	9.74%
11th District ARM index*	8.403%	8.763%	8.346%
Money market accounts, latest 7-day averages			
Money market funds†	7.67%	8.28%	9.08%
Bank money market‡	6.08%	6.23%	6.42%
Treasury security rates			
3-month T-bill discount	7.78% -0.04	7.62%	8.65%
6-month T-bill discount	7.77% -0.02	7.65%	8.76%
10-year note	8.64% +0.05	8.02%	9.26%
30-year bond	8.58% +0.04	8.01%	9.09%

* week ending April 6 † Fed Home Loan Bank ‡ Sanford C. Bernstein & Co. Money Fund Report ‡ Bank Rate Monitor

THE DOLLAR

	Foreign currency per dollar			
N.Y. rates (3 p.m.)	Tues.	Mon.	6 mo. ago	Yr ago
Australian dollar	1.2088	1.2063	1.2798	1.2087
Belgian franc	34.95	34.95	39.62	39.30
Brazil. cruzado (new)	NA	NA	4.0870	0.9900
British pound	0.6098*	0.6109	0.6439	0.5918
Canadian dollar	1.1601	1.1612	1.1759	1.1980
Dutch guilder	1.9065	1.9090	2.1295	2.1230
French franc	6.7008	6.7008	6.3675	6.2520
Greek drachma	163.20	163.20	168.50	159.95
Hong Kong dollar	7.7885	7.7885	7.8080	7.7820
Irish pound	0.6309	0.6309	0.7156	0.7062
Israeli shekel	1.9800	1.9800	1.9700	1.8058
Italian lira	1242.00	1242.00	1382.75	1379.40
Japanese yen	157.95	156.90	144.40	132.65
Mexican peso	2790.00	2790.00	2600.00	2562.00
Norwegian krone	6.5500	6.5500	6.9930	6.8280
Portuguese escudo	149.30	149.30	160.75	155.10
Singapore dollar	1.8780	1.8780	1.9880	1.9550
South Korean won	706.90	706.50	669.00	665.20
Spanish peseta	107.30	107.23	119.80	116.70
Swedish krona	6.1260	6.1165	6.4840	6.4000
Swiss franc	1.4900	1.4936	1.6985	1.6890
Taiwan dollar	26.21	26.21	25.50	26.99
West German mark	1.8800	1.8900	1.9050	1.8845
Morgan Gnty. indx†	90.5	90.3	92.7	90.4

Source: First American Bank of New York. 1—commercial rate 2—floating rate. 3—dollar vs. group of key currencies * cost of one pound: $1.5400

INVESTOR ADVICE

DAILY ADVICE FROM INVESTMENT NEWSLETTERS AND SERVICES COMPILED BY DONNA ROSATO

Firm demonstrates growth

FAHNESTOCK & CO. recommends stock in Stanhome Inc. (STH), a Westfield, Mass.-based maker of household and personal-care products sold via home demonstration shows. STH's earnings should grow an average 14% a year during the next three years thanks to the success of STH's fast-growing giftware and direct-sales business, the brokerage says. STH's Enesco giftware division is especially strong because its products are reasonably priced and purchased by an active group of collectors, Fahnestock says. It says demand for STH's products will be strong as the firm broadens its product line and expands into new markets. Fahnestock notes that STH has solid finances and little debt.

Company (mkt)	Last	'89 EPS	'90 est.	'91 est.	P-E	Div.
Stanhm (NYSE)	29½	$2.23	$2.55	$2.90	13	$0.60

LoJack zeroes in on car thieves

By Patrick Chu
USA TODAY

Shades of Dick Tracy. High technology has revived up to 101 auto thieves.

LoJack Corp. combats car theft through a tracking system that was developed and manufactured by police. How it works:

▶ A car owner buys the LoJack unit for $600. The small board-sized signal-homing unit is installed in an inconspicuous part of the car.

▶ If the car is stolen, the car owner reports the theft to the police. The cops activate the homing unit through their broadcast towers.

▶ The LoJack homing unit emits signals so police cars equipped with special scanners can track the stolen vehicle.

Since 1986, LoJack has installed 15,000 units in Massachusetts and South Florida and boasts of more than 900 recoveries and a 95% success rate. Average recovery time is 90 minutes. In a quarter of the cases, arrests are made.

This year, LoJack has ambitious plans to expand into New Jersey, Michigan, Illinois and Los Angeles County, areas that have high auto theft rates.

Ladenburg, Thalmann & Co. has an "accumulate" rating on the stock. It says the size of the potential market is staggering. The FBI estimates that in the U.S., 1.4 million vehicles were ripped off in 1988, the latest figure available.

Ladenburg analyst Jason Aggarwal says figures that if LoJack merely scratches the potential market — it has 60 of all new cars use the devices — the company would achieve net income of $22.5 million, or $1.95 a share. And that doesn't include what the company could earn from installing units in existing cars. Also, Massachusetts law mandates large discounts in auto insurance if auto owners use a LoJack unit or similar device coupled with an alarm system. Three states have similar laws and others are considering such discounts.

The firm may have strong potential. But the stock has been only 10 3/8 in the past 12 months, well below the S&P 500's 14.6% gain. Whats holding it back? There are problems that make the stock "a speculative situation," Ladenburg Vice Chairman Stephen Weissglass says.

For one, LoJack must spend about $2 million on every market it enters, to supply the police with transmitters, scanners, software and other equipment. That stream of expenditures means LoJack will continue to lose money until 1992, Aggarwal says.

Also, LoJack must aggressively market its product to consumers and car dealers to gain acceptance over other anti-theft devices. Ad expenses run as high as 25% of revenue in Massachusetts.

LoJack's major threat is from rivals who realize the potential of the market and are racing to enter it. Among them: PacTel Teletrac, an affiliate of Pacific Telesis and International Teletrac Systems, is testing a system in Los Angeles that instantly reports a car theft and tracks the auto. METS Inc. of Indianapolis hopes to have a system working by year's end.

COMPANY SPOTLIGHT

A DAILY LOOK AT A COMPANY, INDUSTRY OR MARKET TREND

Homing in on LoJack

LoJack (LOJN)[1]	'88	'89	'90 est.	'91 est.
Revenue (millions)	$2.0	$4.9	$5.0	$15.0
Net income (millions)	-$0.9	$0.1	-$2.0	-$3.1
Earnings per share	-$0.09	$0.01	-$0.17	-$0.27

Hq: Needham, Mass. Exch: OTC Employees: 82
Div./yld.: nil P-E: — Shares: 11.5 million
52-wk. high/low: $5 5/16/$4 1/16 Tues. price: $5¼, -1/16

Earnings estimates: analysts' consensus (Zacks Investment Research); revenue estimate: Ladenburg, Thalmann & Co.
Source: USA TODAY research 1 — for fiscal years ending Feb. 28

Dow ignores Tokyo drop, rises 9.01

By Paul Wiseman
USA TODAY

The stock market overcame earnings worries and trouble in Tokyo Tuesday and headed higher in light trading.

The Dow Jones industrial average rose 9.01 points to 2731.86. Broader measures finished mixed. Losers edged winners 740 to 723 on the New York Stock Exchange, where only 136.02 million shares were traded.

Behind the market: Taking a cue from a 2.54% overnight slide on Tokyo's Nikkei average, U.S. stocks lost ground early. After 30 minutes of trading, the Dow was down 2.93 points. But a late-morning rally in the bond market carried stocks back into positive territory. Bonds faded, but stocks held their gains. By noon, the Dow was up 5.18 points. Two hours later, the gain had stretched to 9.48 points.

Most investors stayed on the sidelines. Some are taking the week off for Passover or Easter. Investors also were jittery Tuesday about the Resolution Funding Corp.'s $3.5 billion auction of 40-year bonds for the savings and loan bailout. (Story, below.)

Adverd Group's Matthew Kulkin figures the market will drift for the next several weeks as Wall Street waits for more companies to unveil results for the quarter ended March 31. "People want to see some corporate earnings for the first quarter and maybe some economic numbers before they start making any serious commitments," he says.

Market highlights: Wall Street again favored defensive stocks. **Procter & Gamble** climbed 1¼ to $70⅞, and **Coca-Cola** added ⅞ to $80⅛.

▶ **Digital Equipment** advanced 1⅞ to $61⅞. As previously reported, optimism is growing that the computer company's earnings for the third quarter (ended March 31) will turn out to be better than expected.

▶ Among other technology stocks, **Compaq** surged 2⅛ to $96½, **Hewlett-Packard** tacked on 1⅜ to $45¼, and **Texas Instruments** rose 2½ to $37½.

▶ **Adobe Systems** jumped 1¾ to $38½ after Shearson Lehman Hutton upgraded its recommendation on the software company to a strong buy.

▶ Also rising on analysts' comments: Drug research firm **XOMA** rose 1¾ to $18¾ on a reiterated buy signal from Alex. Brown & Sons. **Tambrands** added 1⅜ to $77 on bullish comments and higher earnings estimates from Donaldson, Lufkin & Jenrette.

▶ Several bank stocks got a lift from positive comments by Merrill Lynch. **Manufacturers Hanover** added 1½ to $33⅛, **NCNB** climbed 1½ to $37⅝, and **Citicorp** picked up ⅜ to $24¼.

▶ **Peerless Manufacturing**, which makes equipment for the natural gas industry, jumped 2½ to $34½ on speculation it will benefit from clean-air legislation pending in Congress.

▶ **Lancaster Colony** jumped 3½ to $93 on news **Newell** (up ¼ to $24⅞) has 5.6% and is considering a takeover.

▶ **Automated Systems** surged 3 to $8¼ on news the data-processing and software company will be acquired by **Cadence Design** in a stock swap. Cadence gained 1⅛ to $24⅞.

▶ **Hilton Hotels** gave up 1⅛ to $51¾ after Barron Hilton told *The Wall Street Journal* he has no plans to sell the company and plans to focus instead on strengthening its core businesses.

▶ NYSE volume leader **Ames Department Stores** lost ⅞ to $23⅝ after saying late Monday that it expects a 1990 loss, estimated at $226 million.

▶ **AMR** rose 2 to $65¾. The American Airlines parent is taking a close look at making a bid for Aerolineas Argentinas. The Argentine government, which owns the airline, is selling 85%.

▶ **Structural Dynamics Research** climbed 1½ to $39¼ after the software supplier and engineering services company reported a 52% gain in earnings.

Key indexes: NYSE's composite rose 0.28 points to 187.63, NASDAQ's OTC composite was up 1.72 points to 431.90, and the Amex market value slipped 0.16 points to 359.52.

STOCK MARKET SUMMARY

NEW YORK STOCK EXCH. — 723 Advances, Unchanged 311, Declines 740; New highs 19, New lows 58; Dow jones: 2984 Industrials, 1109 Transports, 818 Utilities; Total volume: 136mil

NASDAQ OVER-THE-COUNTER — 654 Advances, Unchanged 2416, Declines 847; New highs 84, New lows 148; Nasdaq: 5488; Total volume: 1.32bil

AMERICAN STOCK EXCHANGE — 281 Advances, Unchanged 248, Declines 397; New highs 8, New lows 17; Amex: 464; Total volume: 12mil

KEY INDICATORS TUESDAY

Indicator	Tues.	Pct. change from Mon.	Pct. change from 1 mos.
AT&T	42	-0.30%	-2.3%
GM	46⅛	0.80%	-3.1%
Exxon	46	unch.	+0.5%
IBM	106½	-0.36%	-2.2%
Dow industrials	2741.67	+0.72%	-1.8%
Dow transports	1176.39	-0.46%	21.9%
Dow utilities	213.03	-0.50%	-2.9%
S&P 500	342.21	+0.21%	4.8%
S&P indus.	397.78	+0.17%	-2.9%
Major Mkt index	345.90	-0.18%	-1.0%
NYSE composite	187.63	+0.15%	-5.7%
Amex mkt value	359.52	-0.04%	9.4%
NASDAQ composite	431.90	+0.40%	-10.8%
NASDAQ indus.	450.20	+0.28%	-4.4%

Indicator	Tues.	Pct. change from Mon.	Pct. change from 1 mos.
R&D growth(Bach)	818.19	-0.98%	-3.3%
Value Line	241.58	-0.07%	13.2%
Wilshire 5000	3280.32	+0.18%	-6.7%
Japan index*	473.14	-0.21%	-6.0%
Platinum (Merc)	475.80	+0.08%	-1.1%
Gold (Comex)	375.00	0.27%	-3.9%
Silver (Comex)	5.081	-0.28%	-1.2%
Long T bonds†	3327.03	-0.32%	-1.5%
Inter T-bonds†	2880.01	-0.07%	+2.3%
CRB futures	240.70	-0.48%	-7.9%
Wheat (May)	3.620 bu	+0.33%	-11.0%
Corn (May)	2.775 bu	-1.22%	-16.9%
Soybeans (May)	5.910 bu	-0.14%	+7.1%
Live Cattle (Apr)	0.802 lb	-0.38%	10.0%

1-70 blue-chip stocks 2-30 larger, growth mutual funds 3-Shearson Lehman total return indexes

MARKET WATCH

USA TODAY'S DAILY STOCK REPORT

▶ Also rising on analysts' comments: Drug research firm **XOMA** rose 1¾ to $18¾ on a reiterated buy signal from Alex. Brown & Sons. **Tambrands** added 1⅜ to $77 on bullish comments and higher earnings estimates from Donaldson, Lufkin & Jenrette.

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Traders greet S&L bailout bonds with disdain

By Jim Henderson and John Waggoner
USA TODAY

The Resolution Funding Corp., the agency that finances the savings and loan bailout, auctioned $3.5 billion in 40-year bonds yesterday, and the bond market turned up its nose at the offering.

The bond market took a hit immediately following the auction. The yield on the bellwether 30-year Treasury bond jumped from 8.53% at 2:00 EDT to 8.59% by 3 p.m.

"The REFCO auction was a dog the last time around," says Ian MacKinnon, a bond fund manager at Vanguard Group of Funds. "Maybe they're trying to start a kennel."

The REFCO bonds weighed in with an average yield of 8.89%, or 0.30 percentage points higher than the yield on a 30-year T-bond. The yield on $5 billion in REFCO 40-year bonds sold Jan. 23 was about 0.21 points higher than the 30-year Treasury bond yield then.

"It was worse than last January's auction," says Stephen Gallagher, economist at Kidder, Peabody & Co.

Problems with the auction showed up in other ways. The spread between the average yield accepted and the highest yield accepted was 0.05 percentage points — 8.94% for the high vs. 8.89% for the average. When an auction goes well, all the bonds are sold at a yield no higher than 0.01 to 0.02 points above the average. "A spread of 5 basis points [illegible] points is [illegible] bad. It means [illegible] higher yield," says Gallagher.

The spread was the same as last January's auction. The average yield then was 8.60% and the government had to accept yields as high as 8.65% to sell the entire $5 billion issue. This time, however, Uncle Sam auctioned a smaller amount — $3.5 billion — in hopes the market would have an easier time digesting it. "But the market [illegible] ked on it just as badly [illegible] ch it w[illegible] [illegible]er [illegible] are as high as $500 billion. "It's a nasty reminder that there's going to be a lot more supply of REFCO bonds down the road," says Randell Moore, editor of *Blue Chip Financial Forecasts*.

All this bodes ominously for the big Treasury auction in early May when Uncle Sam will sell $10 billion each of 10-year T-notes and 30-year T-bonds. "There's not much to [illegible] buying Treasuries after [illegible] auction," says G[illegible] "Ill the May [illegible]

MOST ACTIVE SHARES TUESDAY

The top stocks by number of shares traded

New York Stock Exchange	Vol	Last	Chg
AmesDpt	4,790,000	23⅝	-⅝
Resorts Int A	2,579,200	28	-¼
TJX Cos	2,353,800	15⅛	-1
Mcdonnl Dl	1,996,300	68½	+1¼
Jaguar A	1,525,200	11⅞	—
Citicorp	1,436,700	24⅛	+⅛
PhilMor s	1,421,100	42⅝	-⅛
ArchDnMd s	1,414,900	23⅞	-1
USX Corp	1,198,400	34⅛	-⅛
Exxon	1,102,700	46	—

American Stock Exchange	Vol	Last	Chg
Hillhaven n	994,000	1⅛	+1/16
SUI Ind	640,400	10⅞	-⅛
SciFnx pDwr	602,100	9⅝	-⅛
EnguSvc	508,800	3	-⅛
SciFnx pDDwr	501,900	3⅝	+⅛
SciFnx pDwr	500,100	10⅝	-⅛
BuerPn	274,400	8⅝	+1/16
Drxrk Nv wt	241,700	11	-⅛
BT Nv wt	236,300	23½	-1⅛
Deltona	222,800	2⅝	+1/16

NASDAQ Over-the-counter	Vol	Last
TelMex	6,081,800	1
MCI	3,884,000	26
MentorG s	1,610,000	19⅛
Oracle s	1,489,600	17
Lotus	1,243,600	20½
3Com	1,238,700	13⅛
LotDev	1,220,000	26
Intel	1,189,400	42⅝
AppleC	1,172,500	41⅛
PcSave	1,167,900	13

LEADING GAINERS TUESDAY

New York Stock Exchange	Last	Chg	Pct
RiteAid wt	2⅞	+⅛	+21.1
yTodd Shp	8⅛	+⅛	+13.6
HilfDsc s	8⅝	+⅞	+11.2
Harlex s	9	+⅞	+10.8
FarCom	4⅛	+⅛	+10.0
Sawn pfB	5½	+½	+10.0
AlbelPrg	8⅝	+½	+8.5
yTodd Shp pf	24	+1⅛	+7.9
BRT Rlty	11	+¾	+7.2
ARX Inc	2⅝	+⅛	+7.1

American Stock Exchange	Last	Chg	Pct
AbpneGrp	2⅞	+⅞	+21.1
EKSR	5⅛	-1	-20.5
Comdyn s	4	+½	+14.3
Dasburg	24⅛	-2⅝	-12.6
Alba Waldn	7⅞	+⅛	+12.5
Barksh Fed	8⅛	+⅛	+12.5
NuNorth	2½	+⅛	+11.1
SciFnx pDDwr	3⅛	+⅛	+10.7
UnFoodsA	2⅝	+⅛	+10.5
Intecon	8½	+⅞	+10.1

NASDAQ Over-the-counter	Bid	Chg
AutomatSys	6⅛	+2
JnesSvWp	3⅝	+1⅛
SupmrtSol	2⅞	+⅛
SeacoastSB	2⅝	+⅛
Historetc	3½	+⅛
CelTec s	4½	+⅛
RoadwayMtr	2⅝	+⅛
SecsPfE 80	4⅝	+⅛
Newport Pn	2½	+⅛
AlcRestCp	2⅝	+⅛

LEADING LOSERS TUESDAY

New York Stock Exchange	Last	Chg	Pct
AmesDpt	2⅝	-⅛	-28.9
Wilsmen	8	-⅝	-11.1
HarcrtBuy pf	2½	-⅛	-9.1
NeedPkg	5⅛	-½	-8.7
Portec	2⅝	-⅛	-8.7
HarcrtBuy	2⅝	-⅛	-8.3
SurPlasbur	3⅝	-½	-8.2
BrazilFd	9⅛	-⅛	-7.6
MesulP pf	9⅝	-½	-7.0
MPS Sftn n	12⅝	-⅛	-6.8

American Stock Exchange	Last	Chg	Pct
Andrea Rad	7	-1	-12.5
AM Telecm	2⅝	-⅛	-10.0
Actionind	2⅛	-⅛	-8.5
Computrac	2⅝	-⅛	-8.5
IndianCp	3⅝	-⅛	-8.4
Greenman	3	-⅛	-8.1
LanSys s	2⅝	-⅛	-8.3
NFC PLC s	2⅝	-⅛	-7.7
NewmrkLaw	3	-⅛	-7.7
VaderGr	2⅛	-⅛	-7.1

NASDAQ Over-the-count	Bid	Chg
HospSrSun	3	-⅛
HomeCut Un	3	-⅛
ESP Mkr	3½	-⅛
VictorCreat	4	-⅛
Quantmx	4⅛	-⅛
CalMcDon	3	-⅛
DS Bancor	10½	-1⅛
UnFoodsInc	4⅛	-⅛
GenEqpt	4⅛	-⅛
FirstCharit	11⅛	-1⅛

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USA TODAY

PEOPLE GET INTO IT BECAUSE THEY GET SO MUCH OUT OF IT.

In 1982 Addie Powell quit work to become a full-time mother. Then her former boss' wife needed her sales abilities. Today their company is one of the nation's top tableware manufacturers.

Step 1: Go to lunch

By Lisa Gubernick

HOW'S THIS FOR a way to start a business? In 1982 Nan Swid and Addie Powell pooled $150,000 from their savings and made their first big investment: They spent $1,000 on a lunch at the Four Seasons. The guests were 12 of America's best-known architects, including Richard Meier, Philip Johnson and Stanley Tigerman.

At lunch, Powell and Swid made their pitch. Would the architects design cups, plates and other tableware for their new company? Richard Meier, who is currently designing the $300 million J. Paul Getty Center for the arts in Los Angeles, remembers being flattered at the thought: "Nobody ever asked me to design a plate before." What did Meier care that he wouldn't be paid up front? He could afford to sit tight and wait for a percentage of sales.

Meier and the other 11 architects signed on. That meant Swid Powell, as the company is known, was able to display a 52-piece tableware line, including designs by each of the 12 architects, at the June 1984 Tabletop Show in New York, the nation's largest convention for tableware buyers. Each Swid Powell 5-piece place setting retailed for $170, roughly comparable with Lenox and Wedgwood.

Many people say they wouldn't know where to come up with an idea for a new business. In Nan Swid's case, it was right under her nose. Her husband, Stephen, owned and ran Knoll International, the furniture design business, and through him she had met many of the nation's top architects. Her brilliant idea was to get them into the tableware field.

Recalls Swid, now 48: "I was in the middle of decorating my home in 1982, but when it came to buying dishes—I know this sounds terrible—there just wasn't anything I wanted to buy." Why not get architects to design plates she did like, and then see if other people liked them, too?

Partners Addie Powell and Nan Swid
Designing women.

Right away she called Addie Powell, who had just left a position as vice president of a Knoll sales division to tend to her year-old son. After some initial hesitation, Powell joined up with her former boss' wife. Before long they had signed up their architect/designers at the Four Seasons.

How to sell unique place settings at $170 each? How else? Throw another party. The two women sent out 300 invitations to the biggest tablewar buyers in the country. "Five showe up," says Powell. "Fortunately the were Bloomingdale's, Bullock's, Ma shall Field's, Macy's and Neima Marcus." The little party generate $100,000 in orders.

The designs Swid Powell chos were unique to the tableware worl their signature piece, Tuxedo, was clean black-and-white geometric design by architects Charles Gwatl mey and Robert Siegel. Not long aft the plates hit the stores, Swid Powe received calls from the Metropolita Museum of Art and Museum of Mo ern Art, both of which wanted to p the plates into their permanent desi collections. Recalls Powell, "W didn't have extras to send them."

For the first five years the busine galloped along, growing 25% to 35% year, until annual revenues topped $ million. Then Swid and Powell gre cocky. In January of 1989 they ma their biggest inventory order. Thr months later retailing hit the skid taking Swid Powell's business with For the first time the company's rev nues were flat. Then another blo Imitations of Swid Powell tablewa hit the market at $40 to $50 a settin

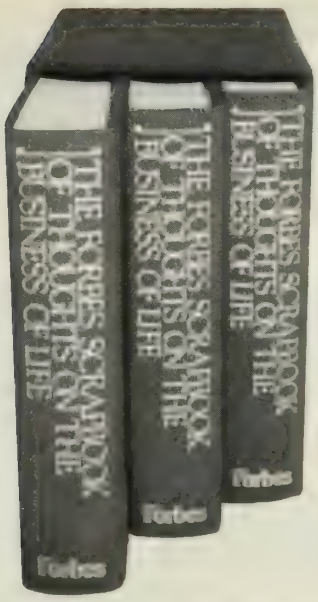
"We sent our lawyer to see t stuff," says Swid. "He to us there was nothing could do. We decided take it as a compliment a simply move along."

To counter the knock artists and build their i age, the partners are n producing one-of-a-ki pieces designed by their chitects. For example, th is a clock with a mother- pearl face, and an ice bu et with a lapis handle. Su items will be offered in g leries for $5,000 $25,000—not a market t imitators can easily p into.

Just as important, S and Powell have begun trade on their company's cach American Airlines commissio them to design place settings for international first and business cla es. Also, the airline plans to use other Swid Powell design on its fi class domestic flights.

In a turnabout, Swid Powell itsel now going a bit mass market. In Oc ber Fieldcrest Cannon introduced first line of Swid Powell sheets, c black-and-white linens in geome patterns. So far the sheets are on Fieldcrest Cannon's most success new lines. ■

NOW READY



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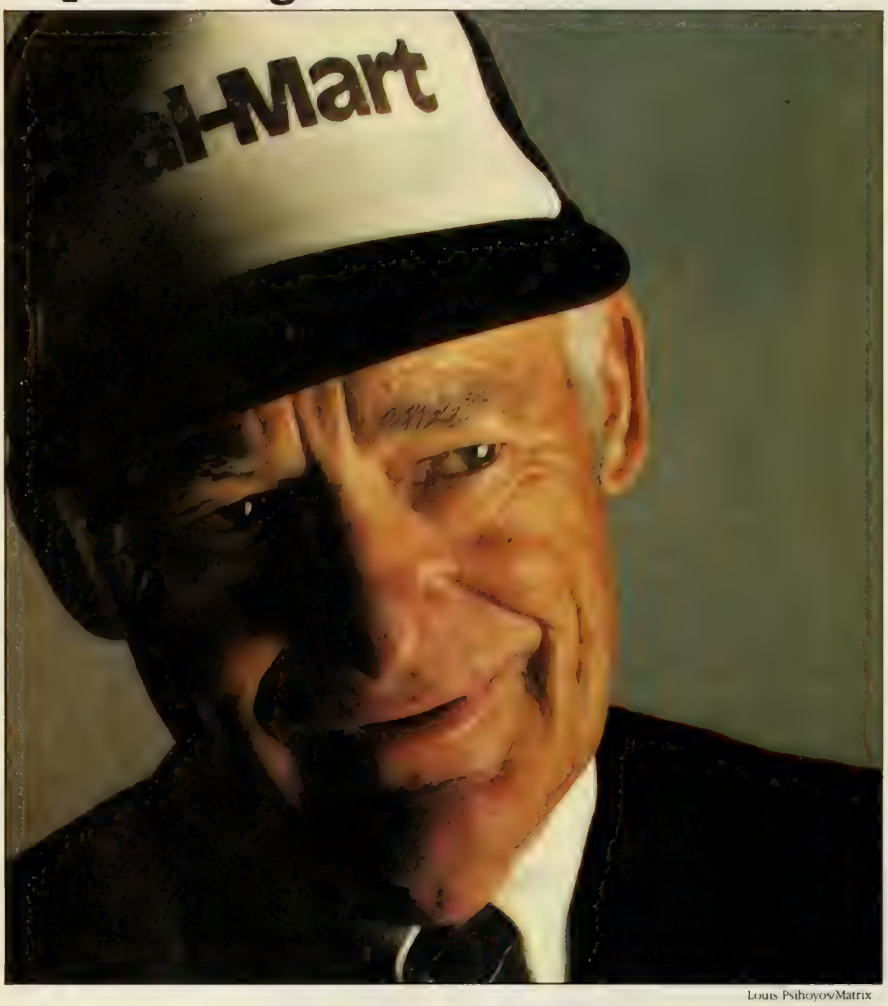
Behind the Figures

Edited by Jason Zweig

Expand it again, Sam



Louis Psihoyos/Matrix

Wal-Mart Chairman Sam Walton
Northward ho!

Retailing billionaire Sam Walton is bringing his Wal-Mart Stores north. Wal-Mart, based in Bentonville, Ark., has agreed to have its discount department stores among the anchor tenants at two shopping centers now under construction in southern New Jersey, scheduled to open by early 1991. And those two Wal-Mart outlets are only a beachhead in what looks like a full-scale invasion of the Northeast.

Wal-Mart is staying mum on its northern ambitions. But real estate executives confirm that Walton will soon sign deals for roughly a half-dozen more stores in New Jersey. Some deals are for Wal-Marts; some are for Walton's warehouse outlets, Sam's Wholesale Clubs. "These guys are looking for space all over New Jersey, New York and Pennsylvania," says one real estate executive. "And there are rumors that they're in New England."

The foul atmosphere in northeastern retailing—with bankruptcy filings from Bloomingdale's to Zayre—apparently smells like opportunity to Sam Walton, 72. "They are not taking just a deal or two," says one real estate expert. "They're coming in in force, and they're going to make a major impact."

Wal-Mart's strategy has its risks. Construction and the approval process in the Northeast can take up two years longer than in the Midwe and the South. Market penetratic warns one observer, "is going to tak little longer than they think. I thi they're going to find they're not goi to be able to hit their projections these new markets."

On the other hand, at Wal-Mar annual meeting last month Walt predicted that the company's rev nues would quintuple, to $125 b lion, over the next decade.

Ted Turner and El Gigante

One of Ted Turner's smallest vestments is losing big mon relative to its size. In 1988 Tur bought the privately held Natio Wrestling Alliance for about $8 m lion and renamed it World Champi ship Wrestling. The WCW, w matches featuring wrestlers like "T ture Boy" Ric Flair and Lex Luger, distant second to the World Wrestl Federation, whose stars include much-ballyhooed Hulk Hogan. the WCW has provided Turner f hours a week of cheap programm for his SuperStation TBS.

The trouble is, the WCW is flounc ing; it has lost about $5 million si Turner bought it. Part of the bla goes to James Herd, a former St. Lo TV station manager Turner hired year to run the wrestling operati Herd's first assignment was to bo ratings by luring the preteen view who normally root for WWF stars Hulk Hogan. Herd emphasized w tling talent that he thought wo appeal to kids, including a surfer-l fellow called Sting, who refers to h self as a "dude with an attitude."

Last year TV ratings for Turn

Bill Apter/Pro Wrestling Illus

Ted Turner and his wrestlers
A really big show.

natches were up somewhat, but tick-
t sales at live matches were down
harply, with attendance at some
vents off as much as 70%. And while
few more kids are tuning in on TV,
or the most part they are remaining
oyal to Hulk Hogan and crew.

Turner is hardly panicking. The
WCW accounts for less than 3% of
Turner Communications' total reve-
ues, and it does keep him from hav-
ng to air a screenful of snow. But
Turner hates to lose. At a press confer-
nce in May, the media billionaire
ersonally introduced the WCW's
ewest mound of muscle, the 7-foot-7,
35-pound Argentinean Jorge Gon-
ales, who will wrestle under the *nom
e guerre* of El Gigante. Between El
igante and "The Mouth of the
outh," maybe Hulk Hogan should
atch out.—**Vicki Contavespi**

nergized

How's this for vertical integration? Edward DeBartolo Sr., the 80-
ear-old real estate titan who report-
lly owns or manages nearly a tenth
all shopping mall space in the U.S.,
as acquired a bit over 10% of Battery
ne-Stop Inc., a Canadian company
at intends to open 135 stores—
ostly in malls—in the U.S. this year.
Between January and June of this
ear, Battery One-Stop opened 63 ki-
ks in nearly 20 states, including
alifornia, Ohio and Florida. Almost
lf of the shops, each offering 400
fferent types of batteries, are in
alls owned or run by DeBartolo. The
osks take up only a sliver of space,
ughly 150 square feet. DeBartolo
t 764,000 shares of Battery One-
op stock for making 52 sites avail-
le in his malls, and he can get another 400,000 shares if he provides some 100 more sites. These leasing deals have pushed his holdings up to 1.1 million shares. What's more, he still collects rent for each store.

Doug Milner

veloper Edward DeBartolo Sr.
ectrifying deal.

Battery One-Stop isn't much to look at just yet. It lost $700,000 on sales of $5 million over the nine months ended Jan. 31. The company, assured of space in DeBartolo's malls, projects electrifying—if not shocking—growth to $30 million in revenues this fiscal year. The stock has already gotten a nice jolt from DeBartolo's presence. Since he agreed to help the company last July, its shares have surged 90%, to a recent 5¼.

Dreyer's Gary Rogers and William Cronk III
Shipping ice cream to Japan.

Gerry Gropp

Cone-ichiwa

Are the Japanese screaming for ice cream? Gary Rogers and William Cronk III sure hope so. The two bought Dreyer's Grand Ice Cream, Inc. in Oakland, Calif. 13 years ago. Since then they have built Dreyer's into the nation's second-largest premium branded ice cream, after Kraft General Foods' similarly named Breyers. Sales last year were $227 million, up from a mere $6 million when they bought the company.

Premium ice cream has become a very crowded market. So next month Dreyer's will begin exporting ice cream to Japan in a joint venture with the trading firm Nissho Iwai Corp. The potential looks good: Japan's ice cream market at retail is worth an estimated $2.5 billion. The average Japanese eats 16 pints of ice cream per year, only a third of what the average American slurps down. Moreover, scarce land and politically powerful farmers keep Japan's dairy prices sky-high. In April U.S. trade pressure forced Japan to lift restrictions on dairy imports. So Dreyer's will be able to ship its products to Japan directly from California, thereby avoiding the Japanese manufacturing costs incurred by rivals such as Häagen-Dazs and Baskin-Robbins. Dreyer's plans to ship small packages—quarts, pints and 6-ounce containers—that will fit neatly into the tiny freezers in cramped Japanese households.

At home, where Dreyer's is now in 30 states, Chief Executive Rogers, 49, and President Cronk, 48, have fattened Dreyer's growth with new products. The company was one of the first to come out with "light" ice cream, for example, and it also offers a low-fat frozen yogurt and a new fat- and cholesterol-free dairy dessert, dubbed American Dream.

Success in Japan would be a welcome treat. Dreyer's new products and rapid expansion have crimped margins: Last year Dreyer's earned $8.5 million, a net margin under 4%, less than half its margins in the early 1980s. Yet the stock was recently at 37, or 22 times expected 1990 earnings. Rogers and Cronk own 24% of Dreyer's shares, a stake worth $55 million.

Is Wall Street overvaluing the company's prospects? For now, Dreyer's new products are selling well. And as for Japan, the two ice cream entrepreneurs say they hope to capture 10% to 15% of the country's market. But, cautions Cronk, "that could be a long way away."—**Julie Schlax**

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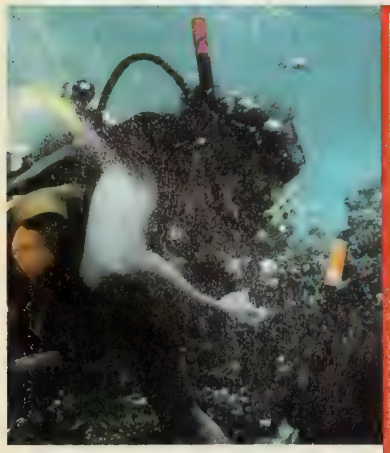

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The Forbes Wall Street Review

Edited by Eric S. Hardy

ig loan writeoffs have scared investors out of bank stocks, but Anthony olini, who follows regional banks nd thrifts for A.G. Edwards in St. ouis, is not frightened. "During the ext 15 or 20 months, the market is nce and for all going to make a disnction between good bank stocks nd bad ones," he says. Among the nancial institutions Polini recomnends are Bay View Capital (California), Old Kent Financial (Michigan), Iercantile Bancorp (Missouri) and eoples Bancorp (Massachusetts). onetheless, bank and thrift stocks e still hitting Wall Street with some asty earnings surprises. San Diegoased HomeFed, which fell 18% and as one of the worst-performing ocks over the last two weeks, rently announced that its nonperrming assets increased by $81 milon in May.

The New York Stock Exchange is aking a laudable effort to extend ading hours to take better advantage foreign interest and to compete th so-called third-market trading one by nonmember firms). But this mes on the heels of another anuncement regarding "circuit breaks." The exchange says it may imple-ent trading halts when the market ops too much. Closing the exange, possibly for almost an entire y, hardly seems like the way to inre investor confidence in the liquid- of the stock market.

The Best Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
BMC Software	29¼	22%	35	1,037	1.0
Home Shopping Network	8⅞	20	NM	3,159	1.9
Cetus	19½	18	NM	6,292	2.2
Wendy's Intl	7¼	16	28	10,865	3.7
Oracle Systems	22¾	15	32	16,117	0.9

The Worst Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
LA Gear	27⅜	–30%	[illegible]	12,439	2.3
Urcarco	16⅛	–21	NM	9,030	4.2
Homestake Mining	15¼	–19	63	3,568	0.9
Battle Mountain Gold	10⅞	–19	33	4,689	2.0
HomeFed	24	–18	4	2,144	3.1

Closeup on the Market

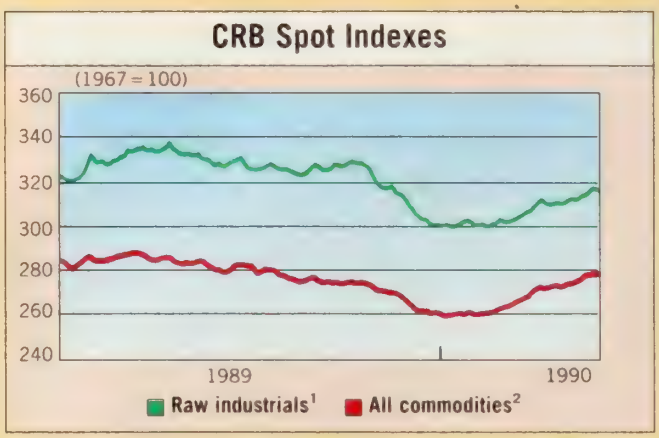
dex or investment	Price	2-week change
ilshire index 00 stocks, capitalization weighted	3,472.55	0.7%
ilshire index 00 stocks, equal weighted	22.07	1.4
w Jones industrials stocks, divisor-adjusted price average	2,928.22	1.8
&P 500 pitalization weighted cross section, major stocks	362.90	0.5
/SE pitalization weighted, all listed common stocks	197.98	0.5
ex pitalization weighted total return: stocks, warrants	364.30	0.3
sdaq pitalization weighted, all issues except warrants	467.10	1.8
ex international market index pitalization weighted, 50 largest ADRs	316.68	0.2

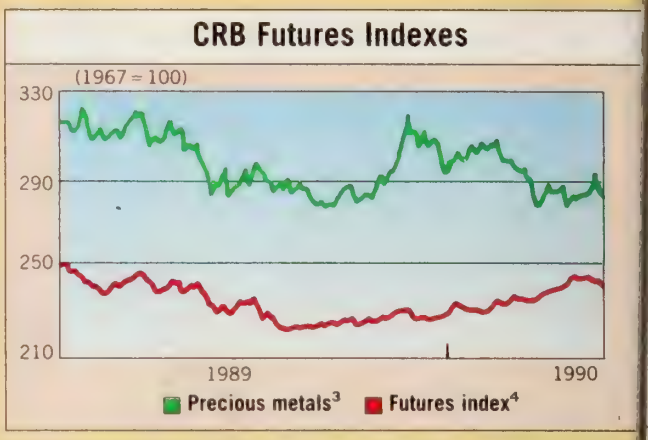
Index or investment	Price or rate	2-week change
Europe, Australia, New Zealand and Far East[4] (EAFE) a dollar denominated capitalization weighted index	910.20	–1.5%
Institutional[5] Approximately 200 stocks with high institutional ownership	119.59	1.0
Individual[5] Approximately 200 stocks with low institutional ownership	106.19	1.8
Russell 2000 index 2000 stocks with small market values, capitalization weighted	170.63	1.2
Gold[6] (composite quote of 6 major dealers)	$344.75	–5.4
Yen[6] (per $U.S.)	154.13	1.1
Commodity index[6] (CRB futures index, 1967 = 100)	236.44	–2.0
Oil[6] (W Texas Intermediate)	$17.15	–1.4
T bills[6] (90 days)	7.64%	–11 basis points[7]
Broker loan rate[6]	9.25%	unchanged

: All data for periods ending 6/14/90. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity index was created. Stocks listed above have market capitalizations of $500 million or more. [1]Capitalization weighted, prepared by Wilshire Associates, Santa Monica, Calif. rage daily volume over a 2-week period. [3]Average daily volume over the last 2 weeks, divided by the average daily volume over the preceding 3 months. [4]Morgan Stanley tal International Perspective. [5]For period ending 6/15/90. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. [6]Knight-Ridder Financial mation. [7]A basis point is equal to one-hundredth of a percentage point. NM: Not meaningful.

Commodities Review

Edited by Eric S. Hardy



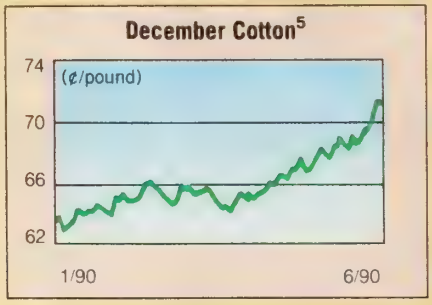


If the cost of living shoots up, commodity prices are unlikely to be the prime culprit. "There's nothing on the horizon that will result in higher inflation" in terms of raw materials, says James Nevler, who analyzes the commodity markets for the Commodity Research Bureau, a subsidiary of Knight-Ridder. The bureau's futures index is down 1% from mid-March. "I see very stable markets and ample supplies of many goods like coffee and orange juice," adds Nevler.

This doesn't mean that commodity markets will no longer be volatile or that consumers won't pay more at the retail level. Higher taxes for gasoline products in states like New York and California, for example, may nullify any savings that might result from the recent decline in prices. And retail prices for many products go up fas with bad news than they go down with good news.

Many precious metals have had sharp price declines far in 1990. Gold was recently about $350 an ounce, silv under $5. Although platinum, used in automotive catal ic converters, hasn't fallen as much in percentage terms is now trading near the bottom of its 52-week price ran Prices of base metals, such as zinc and copper, have h up well, while tin has fallen 10% in the year to date. T weakness in commodity prices supports those who belie the Fed is feeling confident enough to ease up on inter rates *(see story, p. 66)*.

Commodity Spotlight



There has been too little rain in south Texas, and too much in Missouri. Both conditions may help cause the summer cotton crop to be smaller than originally estimated. According to the U.S. Department of Agriculture, cotton exports are at a ten-year high and inventories at a six-year low. As a result, cotton has been one of the strongest commodities in the futures market.

Cash and Futures Prices

Spot Indexes			Futures Indexes		
Index[6]	Value	3-mo change	Index[6]	Value	3-mo char
All commodities	275.36	3%	CRB Index	235.46	–1%
Raw industrials	317.04	4	Precious metals	273.47	–8
Metals	311.88	6	Industrials	247.29	–2
Textiles	261.10	6	Grains	201.44	1
Foodstuffs	224.46	2	Livestock & meat	234.63	10

Spot Commodity Prices			Futures Prices		
Commodity	Price	3-mo change	Commodity	Price	3-mo cha
Steel scrap (short ton)	$114.00	16%	July platinum (troy oz)	$476.00	–7%
Copper scrap (pound)	0.87	–5	Aug crude oil (barrel)	17.59	–15
Print cloth (sq yard)	0.74	6	July copper (pound)	1.12	–2
Corn (bushel)	2.76	13	July cotton (pound)	0.81	12
Soybean oil (pound)	0.25	7	July Chi wheat (bushel)	3.28	–4

Notes: All prices as of 6/15/90; graphs as of 5/31/90. [1]Comprised of 13 commodities. [2]Comprised of the 13 raw industrial commodities plus 10 foodstuffs. [3]Gold, platinun silver. [4]Comprised of 21 commodities. [5]Prices from 1/1/90 through 6/8/90. [6]Base for spot and futures indexes (1967 = 100). Source: Knight-Ridder Commodity Research Bu

Regular price, 10 cents each. For you, a valued employee, we have an exclusive deal: two for a quarter.

By invitation only

By Michael Fritz

EMPLOYMENT AT IBM brings all sorts of privileges: membership in a country club at $9 a year, IBM stock at a 15% discount, PCs at 1% off list price. Later this year employees of IBM will be cut in on yet another benefit—but this is one they may prefer to pass up. They will receive an offer to invest in two IBM-sponsored index mutual funds carrying expense ratios that could go as high as three times those at some comparable no-load funds available in the market. The IBM funds—one indexed to the S&P 500 and the other to a group of 2,500 smaller stocks—augment a $457 million IBM employee-only money market account rolled out early last year.

IBM joins half a dozen other companies that have opened employee- or member-oriented mutual funds over the last four years, among them American Airlines, Owens-Illinois, Bechtel Group and the American Hospital Association. They offer such conveniences as initial investments as low as $100 and automatic payroll deductions. By and large, the employer-sponsored funds are not open to the general public. A handful, including those from Bell Atlantic and IBM, are marketed strictly to employees and retirees and their families, but are really open to outsiders.

It sounds warm and cozy to have your employer looking out for you in the financial marketplace. But before you sign on to an employer-sponsored fund, look it over with the same skeptical eye you would use on a fund sold by a broker or telephone marketer.

For a stock index fund, one designed to passively track the S&P 500 or other index, the expense ratio is the most important criterion. According to its registration statement, IBM intends to absorb enough of the startup costs to bring the annual expense ratio for its stock index funds down to 0.8%. But what's so great about that? You can get nearly identical index funds from Vanguard with expense ratios of 0.2% to 0.4% of assets.

An IBM spokesman says, "The situation is fluid." Meaning, perhaps, that IBM, which takes excellent employee relations seriously, will cut costs later to be more competitive.

Exclusive funds

Being tapped for membership is not necessarily a blessing—some of these expense ratios are steep.

Fund	Assets* ($mil)	Expense ratio
AMA US Govt Income Plus	$39	1.9%
Amer AAdvan Equity	214	0.7
Bell Atlantic Equity	11	1.4
Bell Atlantic MM	8	0.8
Elfun Tax-Exempt Income	791	0.2
Fremont Multi Asset (Bechtel)	59	1.0
Harbor Bond	25	1.2
Harbor Growth	162	1.0
Harbor MM	46	0.7
State Farm Growth	444	0.2

*As of 5/31/90.

Sources: Morningstar, Inc.; Forbes

Say this for the concept: It helps insulate employees who may be naive about the market from salespeople with doubtful products or high sales commissions. But the company funds are not necessarily in themselves bargains. Bell Atlantic's money market fund costs 0.75% of assets annually. The expense ratio at Fidelity's Spartan is only 0.45%.

Several companies, including IBM and Ford, are offering to employees and/or shareholders money market accounts invested in their own short-term paper. The yield is pegged to the average yield of publicly offered money market funds. Depending on the formula, this could be a good deal for investors—and the company saves on underwriting costs.

General Electric has been offering employee funds since 1928, when it began allowing employees belonging to its volunteer-oriented Elfun Society to invest in a no-load stock fund. Today GE manages five Elfun funds. Would that all employers ran their funds so well. Not only do the Elfun funds have low expenses, they also have excellent performance. All three of the funds that have been operating for five years sport returns in the top 10% among comparable funds available to the public. The 14-year-old $790 million Elfun Tax-Exempt Income Fund has returned an average 14.3% over the last ten years, making it the top performing tax-exempt bond fund, according to Lipper Analytical Services.

But few of the employee-oriented funds look to be as good as the Elfun lines. Many of the funds offered to doctors by their trade association have steep expense ratios. And some special-interest funds are downright dogs. Consider the $43 million Amway Mutual Fund, managed since 1984 by Kemper Financial Services. Though legally open to the public, this diversified stock fund is marketed solely to Amway distributors. The fund carries a 6.5% up-front load and has trailed the S&P 500 by an average of five percentage points a year since 1980. The fund gets a "C" for bull markets and a "C" for bear markets in the FORBES rating system.

There is an occasional value among the corporate clones. Owens-Illinois' Harbor International Fund is managed by foreign-stock picker Hakan Castegren, who also runs the Ivy International Fund. Though these funds are near mirror images, the Harbor International Fund earned 25.1% over the 12 months through May, against 18.7% for the Ivy fund. Why the difference? Harbor enjoys a more steady flow of cash into the fund and fewer redemptions, enabling Castegren to run the fund more efficiently. Also, Harbor's expense ratio is 30 basis points less than Ivy's.

Exclusive funds range from excellent to terrible. Don't buy without seeing how a fund compares with those rated in the annual FORBES survey *(Sept. 4, 1989)*. ■

PATRICK SHEEHY, AGM 1990

EUROPE, NOW A WORLD OF OPPORTUNITIES.

Just as this last year has been an historic one for our Company, so the world around us has seen dramatic and exciting change.

As you know since the 1960s I have been interested in building a stronger market in Europe and I am optimistic about recent developments.

The integration of a united Germany into the Community makes it imperative that we complete the 1992 programme on time. We must not only approve but also implement, in every member state, those 300 or so internal market directives which are crucial if the Single Market is to become a working reality.

It is becoming evident that a single market without a single currency is only half the battle. We must push forward with monetary union in spite of all the well known difficulties. For Britain to be left outside of this process would be to relinquish our rightful place in history and I welcome the more positive role that the Government is at last now taking with regard to the Exchange Rate Mechanism.

But those of us in business must continue to play our part. Whilst politics are driving events forward, the economic changes will be implemented by those of us in business and we must make our interests heard.

Inevitably an integrated Europe will need effective democratic control. And I am glad that this last and most important item is on the agenda for discussion. The new shape of Europe should be determined and implemented by the existing nations before it is expanded. However, it is a testimony to the strength of the concept of a Community Single Market that many members of EFTA and the newly emerging democracies in the East regard membership as a major priority. Event Eastern Europe offer tremendous opportunities both our businesses.

The whole of Germany is now treated as one ma for cigarettes by BAT Cigarettenfabriken and we alre have a 65 strong field force operating in East Germ Our sales in other Eastern European countries, inclu Russia, have already increased by two thirds and we urgently examining ways expanding even further in th substantial markets.

On the financial serv side we see potential in countries w individuals will have the chanc personal investments w none have existed before expertise in personal could prove invaluable as institutions develop that will need consumer fin These prospects may not materialise as swiftly as t in the tobacco business but we are in a strong pos once they do.

However, you can be certain that we are not whelmed by the understandable euphoria that surro these countries at the moment. Very often the ma and supporting institutions are rudimentary and currency remains a problem but we are well prepar take every opportunity that is commercially feasible

There is, in every sense, a world of opportunities b us. By focusing the Group on our two great business financial services and tobacco, the foundations have laid for a new period of sustained growth in our Comp fortunes. I face the challenges of the new decade considerable optimism and am determined to ensur we make the most of the international opportunitie lie before us, in both our businesses.

B·A·T INDUSTRIES

B.A.T Industries p.l.c., Windsor House, 50 Victoria Street, London SW1H 0NL.

Ginnie Mae mortgage-backed bonds sound supersafe. They aren't always so.

PITFALLS IN GNMAs

By Ben Weberman

You'd think the high-yield mortgage-backed bonds offered by the Government National Mortgage Association were safe. After all, they're full faith and credit obligations of the U.S. government. But they also carry a dangerous degree of risk for the unwary investor.

The pitfall arises from the uncertain period for repayment of the underlying mortgages. A Ginnie Mae passthrough certificate represents an interest in the cash flow of a pool of FHA or VA mortgages. A homeowner has the obligation to repay small amounts of principal every month over the stipulated period, as well as the right to prepay as much as desired at any time without penalty. That repayment option is valuable to the borrower. But it puts the investor—the lender—at the mercy of the borrower.

In times like these, when interest rates are softening, many borrowers repay more principal. This results in the bondholder getting face value rather than market value, which can mean a loss of up to 10 points on the bond if you paid a premium.

The 12½% Ginnie Mae, for example, trades at 110, to yield 11.15% on its estimated four-year life. But if the borrowers paid off their obligations in, say, six months, the bondholders would receive par (100) and lose the 10-point premium. This would be offset somewhat by getting six months' worth of interest, but your overall loss would still be substantial. You'd also be forced to reinvest the proceeds at rates lower than the original certificate.

Unlike most securities, where one bond or one share is identical to all others in its class, Ginnie Mae certificates represent ownership in a specific pool of mortgages. Pools differ by region, by age of loans, by the type of home financed and a myriad of other characteristics. Differences in risk are considerable.

Ginnie Maes can be purchased generically (with the issue filled from dealer inventory) or by specific pool number. As a rule, specific pool number transactions trade at a higher price—lower yield—than do generic transactions. That's because their prepayment patterns are more predictable and investors are willing to take a smaller yield in return for that information.

Most institutional investors do their own careful analysis of prepayment characteristics. Before selecting a specific pool, they also rely on analytic work performed by the major Ginnie Mae dealers.

The U.S. Housing & Urban Development Department (HUD), which runs the FHA and Ginnie Mae mortgage programs, collects and publishes monthly repayment and prepayment data for every one of the 200,000 or so outstanding pools.

But even supersophisticated investors need to be careful. A group of institutional buyers recently took a big hit because of a higher-than-expected prepayment rate in a group of mortgage pools. They were relying on "normal" yield assumptions based on historic trends. But those assumptions were thrown off by the questionable use of an FHA program that encourages the refinancing of high-rate mortgages.

Chuck Ramsey, managing director of Bear, Stearns & Co, who massages the monthly HUD data on mortgage repayments, has identified 8 out of the 85 high-coupon issuers created last year as having "extremely fast prepayment speeds." That translates to approximately $400 million worth of certificates exposed to market losses.

Be discerning in taking advantage of pools of 11% coupons or more. Even though it may be difficult for you to specify the number of the pool that satisfies your portfolio desires, tell your broker the coupon rate and other characteristics you want. Try to get a certificate in a large Ginnie Mae pool of $100 million or more. The prepayment patterns of smaller pools are much harder to predict: Being dependent on a smaller base of borrowers could mean more volatility in the repayments.

The above advice comes from Steven Hueglin, executive vice president at Gabriele, Hueglin & Cashman, a John Hancock Mutual Life Insurance Co. affiliate that specializes in tax-exempt bonds and mortgage-backed securities.

Hueglin also suggests that investors who want a more predictable maturity consider buying Collateralized Mortgage Obligations. Most CMOs involve Federal Home Loan Mortgage Corp. (Freddie Mac) or Federal National Mortgage Association (Fannie Mae) pools. CMOs separate pools into short-, medium- and long-term portions, with fixed rates of interest at regular intervals.

Probably the best bet for the ordinary investor is Ginnie Mae mutual funds. You will lose some yield because of management fees, but someone else will do the selecting and you'll be widely diversified among GNMAs. Vanguard's GNMA fund has an excellent record, 10.3% total return over the past year. Vanguard has no load and a low annual operating expense of 0.31%. Second-best record is held by Federated GNMA Trust at 10.2% total return for the year ended May 31. Federated also has no load, but has an operating expense of 0.52%. ■

Ben Weberman is a contributing editor of FORBES magazine.

Bank stocks with real estate exposure have rallied. But nothing has changed. The problem won't go away soon.

WISHFUL THINKING

By Frederick E. Rowe Jr.

During 1983 a popular bumper sticker among natural gas producers read: "Stay alive 'til '85." This slogan had two meanings. First, the natural gas "deliverability surplus," which caused huge amounts of natural gas to be "shut in," would dissipate by 1985, thus allowing producers to sell their gas in the market. And second, natural gas prices would rise to a level comparable with oil in terms of equivalent energy efficiency.

Well, here we are seven years later, and gas producers are still having trouble selling their gas, and natural gas is still cheap, relative to oil. I tell this story not as a prelude to some new energy theory but rather to illustrate a point: It frequently takes much longer for supply and demand to come into balance than active market participants expect.

The massive commercial real estate problem in this country is going to eat at our financial system far longer than most of us can imagine. As my friend, the former Texas real estate magnate Preston Carter, has been reminding us for years, "Real estate is not a cash flow business. Real estate is an asset appreciation business." I know dozens of real estate operators. They all say the same thing. They made their money selling properties, not owning them. After servicing debt, repairing buckled parking lots, replacing air conditioners, etc., there is rarely any money left over. And yet for years they were able to sell their properties for more than they had paid for them, and because of generous depreciation rules associated with real estate until tax reform in 1986, they paid very little federal income tax.

If real estate doesn't flow free cash, and if tax incentives have been removed, and if rents have consistently failed to keep up with inflation, then why on earth do lenders keep lending on real estate? And why do developers keep developing? Obviously there is a problem here. Is there a solution? And what are the investment implications?

Real estate developers and occasionally prudent lenders are a match made by the devil. I have observed both species for a long time and feel qualified to make a few observations.

Real estate developers are charismatic salesmen and visionaries. Real estate development is creative and intoxicating. If the numbers don't work, well, what the heck, change the numbers. The real estate vision is more important than the economic reality.

. A banker I know, who is too old to have participated in the national real estate debacle, likes to explain the dynamics of real estate lending this way: "Jones is an experienced real estate developer. He brings a deal to Smith, who is an experienced real estate lender. Smith thinks to himself, 'Nobody knows this market any better than Jones. If Jones wants to do this deal, it has to be a good deal, and I'd better lend him the money or somebody else will.' At the same time Jones is thinking: 'Smith looks at hundreds of deals. If he will lend me the money for my deal, then I must have a good concept.' And so it goes."

In addition to psychic gratification, Jones and Smith have a few more base considerations. From the money Jones borrows, he will receive a development fee, the size of which would be the envy of most working people. Since the economics of Jones' deal are to some extent fantasy anyway, Jones can afford to be generous with his faithful banker. Preston Carter facetiously points out that banks are always eager to lend on real estate because real estate is one of the few businesses that can afford three points up front and three over prime.

The loan Smith makes to Jones is called an ACD loan—acquisition, construction and development. Smith has lent Jones his development fee and the money to pay interest for five years. Sure enough, at the end of five years rents do not service debt. Jones and Smith conclude that what is needed is time for the real estate market to firm up. All of which would be fine except that there are thousands of Smiths and there are thousands of Joneses, and they are all waiting for the real estate market to firm up. The miracle of compound interest is a two-edged sword. The financial hole being dug by the Smiths/Joneses of the world is so deep and the interest meter is running so fast, that in the unlikely event that the demand for commercial real estate catches up with supply, cash flows cannot catch up with principal and interest owed.

Bank stocks with real estate exposure have rallied. There seems to be a feeling that bank regulators are not going to force lenders to face economic facts—at least not right now. There has been a great deal of frantic short covering in bank stocks, and the net result is that the group has been showing "strong relative strength." Short covering and lenient regulators do not lease space at rates that service debt. The problem is not going away any time soon. I suggest that investors be careful of *Rouse Co.* (25), *Wells Fargo* (84), *Bank of Boston* (15) and *First Interstate* (44). ■

Frederick E. (Shad) Rowe Jr. is the general partner of Dallas' Greenbrier Partners, a hedge fund.

Wall Street Irregular

MONEY & INVESTMENTS

Asset allocation is a hot new area for investment letters. Cynics say it's just another gimmick. Not so fast, cynics.

THERE IS SOMETHING TO IT

By Mark Hulbert

Why are so many of the financial newsletters I monitor in the *Hulbert Financial Digest* becoming fascinated with the "asset allocation" approach to investment—and why are investors so cynical about it?

I think I know. The letter editors are like generals fighting the last war. They realize that the right asset allocation strategy would have helped them survive the 1987 crash, keeping their stock exposure relatively low. But investors wonder why these advisers weren't advocating asset allocation before the crash, rather than acting as though the bull market would last forever. They suspect that it's just another gimmick to sell financial products.

It has always been wise to be cynical about Wall Street and its offshoots. But I would not be too fast in writing off asset allocation as a mere gimmick. It is a powerful conceptual weapon that merits a place in every investor's arsenal.

Whether we realize it or not, we are all asset allocators whenever we make any of a number of routine financial decisions. A decision to pay off a mortgage early, for example, actually involves several complex asset allocation issues—such as the interest rate outlook and the relative performance of real estate and alternative investments. The advantage of thinking consciously about asset allocation is that it forces you to think more clearly about assumptions you have already made implicitly.

Most investors focus on just one asset category at a time rather than thinking about how to divide their portfolios among those categories. During the 1980s, for example, investors were particularly preoccupied with the stock market and how to beat it. But this preoccupation is really little more than a sideshow. The far greater determinant of investors' long-term returns is the portion of their portfolios devoted to stocks in the first place. Every investment has its season. Asset allocation is simply the art of dividing your capital among different asset categories.

The need to focus on more than just one market becomes apparent when judging the performance of those newsletters that comment on asset allocation. Comparing them with just one asset category tells us virtually nothing about their abilities. If we were to compare them just with equities, for instance, we could become discouraged by the fact that none of the dozen the *Hulbert Financial Digest* has tracked since the beginning of 1988 beat the stock market's 55.8% total return through this past May. Yet if we were to compare the asset allocators with gold, we would be impressed that all of them did better than bullion's 25.4% loss.

To discover whether these asset allocation investment letters did a good job, we must compare them with a composite index constructed out of each of the different asset categories. That is, did an investor following their advice outperform an index equally weighted among stocks, bonds and gold? Such an index gained 13.7% over this 30-month period. Eleven of the 12 asset allocation letters beat that. The top three: Standard & Poor's *Outlook* (up 31.4%), Donoghue's *Moneyletter* (31%) and the *FXC Report* (30.1%).

Some observers contend that the T bill rate would be a more appropriate performance benchmark than this three-market composite. They argue that, as a practical matter, cash is the default mode for most investors—and that if asset allocation can't do better than the return available from doing nothing, it's not worth the bother.

The T bill rate turns out to be a stiffer standard, up 19.3% over the last 30 months. But 6 of the 12 asset allocators still passed muster.

What about the asset allocation computer software programs that are now on the market? My advice is to follow the fine print shown with TV commercials featuring sports-car stunts: *Don't attempt this yourself.*

Why? Because these programs sometimes lead to absurd conclusions. This is well illustrated in an excellent new book, *Asset Allocation: Balancing Financial Risk,* by Roger Gibson (Dow Jones-Irwin, $34.50).

Gibson tested the sensitivity of a number of asset allocation programs to minuscule changes in input. He would change the estimates of the average annual return of various asset categories by as little as 1%, or modify assets' volatility by just 1%.

The results were startling. Just one of these minor changes sometimes would lead the programs to recommend doubling or halving the allocation in a given asset category or even, in some cases, eliminating a category altogether.

The programs place too much faith in long-term estimates that are crude and tentative. But they do show that the arithmetic of asset allocation can be dramatic. Fortunately, some investment letters seem to have mastered it.

Therefore, don't dismiss asset allocation as bunk. Whether you think of it that way or not, we are all asset allocators. ■

Mark Hulbert is editor of the Alexandria, Va.-based Hulbert Financial Digest. *His newest book is* The Hulbert Guide to Financial Newsletters *(Probus Publishing).*

Federal government borrowing will balloon as the economy slows and the S&L bailout grows. So, will interest rates rise? No, they will decline sharply.

BETTER BUY BONDS

By A. Gary Shilling

If the recession I think the economy is now in is of average postwar depth, the federal deficit will rise by $125 billion before it is over, even after excluding any recession-fighting tax cuts or increases in real federal spending. Adding this increase to the current deficit brings the need for Treasury financing close to the $300 billion level at the bottom of the business slump. This sticker-shock number could be even higher, perhaps $400 billion, in the global and deep recession I expect. Throw in the S&L bailout, which will increase government borrowing by at least $200 billion, and you come up with a frighteningly big number on federal government borrowing needs.

Many worry that, despite a softening economy, this mountain of new debt will not only preclude any substantial decline in interest rates but will push them higher. Not me. I like bonds now.

Why? Take a clue from bank robber Willie Sutton, and find out where the money is. Analysis of cash flows shows that the money available for government borrowing will grow even faster than the government's need for borrowed funds. The net effect is an increase, not a decrease, in the supply of funds. That will push interest rates down, bond prices up.

How do I figure this? It's simple. A recession occurs because net stimulus to the economy has fallen. Sure, government spending on welfare, Social Security and the like grows, and corporate and other tax collections fall, increasing the deficit by the amount of cash the federal government puts into the economy on balance. But elsewhere in the economy, stimulus is being withdrawn—much more stimulus than the government injects; otherwise there wouldn't be a recession. And who is behind this disappearing stimulus? The private sector.

In a recession, businesses slash inventories and capital spending at a much faster rate than cash flow falls, so their financing needs decline sharply. Consumers, worried about actual and threatened unemployment, reduce outlays on cars and other heavily financed big-ticket items. Less borrowing means more saving, and households frequently become so cautious in recessions that they actually save an increasing percentage of their depressed income.

In sum, in business slumps, private domestic borrowing falls faster than government borrowing increases. And, this time, the excess supply of funds will be further increased as the trauma of a worldwide and severe recession chases international investors into the safe haven of U.S. Treasurys.

Following the cash flow in the S&L bailout takes us down a similar path. When the Resolution Trust Corp. takes over a failed S&L with $100 million in deposits, $100 million more in government securities are issued to pay off the depositors. What do the ex-depositors do with the money? Probably deposit it in a healthy S&L or bank, which in today's world of cautious lenders will most likely buy government securities with the funds. Directly or indirectly, the money will simply make a round-trip, and the funds raised by issuing government securities will return to finance those securities.

Later, when the Resolution Trust Corp. sells the failed S&L's loans, junk bonds and foreclosed real estate for, say, 60 cents on the dollar, or $60 million in this example, the net issue of government securities is reduced to $40 million. On balance, investors have traded $60 million in deposits in the failed S&L for its loans, junk bonds and real estate now worth an equal amount. Since these assets are much less liquid than the funds used to pay for them, their new owners may become more cautious, further depressing business activity and increasing the supply of funds in the economy. Similarly, the real estate dumped by the RTC and the overhang of real estate yet to be dumped, will continue to depress that market.

Of course, taxpayers will ultimately take a $40 million loss on this "fictional" transaction, but that does not affect cash flows—it is simply an accounting entry that replaces the writedown of the S&L's assets with government debt. The only meaningful net effect is the interest paid on that increase in government debt, which is relatively small day by day but does cumulate to big numbers over the decades.

The surge in new Treasury issues may continue to frighten investors and retard the decline in interest rates. As it becomes clear that the net effect is not to decrease but to increase the overall supply of funds, interest rates will fall sharply, especially if the recession is global and deep. The yield on long-term Treasury bonds, now 8.5%, could fall to 4%, resulting in a very attractive gain of almost 70% in the bonds' prices plus the coupon yield. As reality wins over perceptions, investors in Treasurys will win big, too. ■

A. Gary Shilling is president of A. Gary Shilling & Co., economic consultants and asset managers. His firm publishes Insight, *a monthly newsletter covering the business outlook and investment strategy.*

Who says U.S.-made cars can't compete in world markets? That's yesterday's story.

A QUIET COMEBACK

By Alan Reynolds

/henever U.S. car sales slow down bit, reporters recycle all the old ash about how American cars and ucks just aren't up to the lofty andards set by Europe and Japan. et U.S. automotive imports in-eased by only $1 billion between)87 and 1989, while U.S. automo-ve exports increased by more than ' billion. More and more Japanese odels are made here rather than nported, and this process will ac-lerate as new capacity comes on ream. The transplanted Japanese ctories are using more U.S. parts, facilitate just-in-time inventory anagement. The domestic con-nt of a Honda Accord is already ell above 70%, which is about as gh as a Ford Escort. The new Ford obe LX, built by Mazda in Michi-n, benefits from a powerful U.S.-uilt engine. Mercedes and Jaguar ve some major body panels made the U.S.

Part of the myopic gloom about rrent conditions in the U.S. in-stry simply reflects a loss of per-ective. The industrial production dex for automotive products opped 10% from the end of 1988 the end of 1989, for example. Yet, even after that drop, it was still 60% higher than in 1980.

What about the much-trumpeted recent decline in U.S. production and sales? This is a misleading guide to the future. The transition toward extended warranties tends to stretch out the time between purchases of new cars. Yet eventually the same number of cars will have to be scrapped and replaced to fill those spaces in the garage. Also, important all-new models like the Chevrolet Caprice and Ford Escort were not available until this spring. That makes comparisons between the first few months of 1989 and 1990 quite misleading.

In the coming decade, U.S. flair for styling and performance, when added to the knowledge we are gaining about Japanese attention to quality control, will make a formidable combination. An expanding share of the world's car and truck output will be moving toward North America, even if many of the cars produced bear Japanese nameplates. To gauge the industry's health, it will become increasingly essential to look at production rather than U.S. sales, because exports will be quite significant.

Most U.S. automakers, particularly the Japanese transplants, are beginning to gear up for exports in the hundreds of thousands. The most interesting new opportunities are likely to be in places where vehicles are still relatively scarce, such as Eastern Europe and Latin America. A revitalized Mexico is wisely moving toward specializing in smaller cars, engines and wheels, while importing U.S. luxury models and trucks that the country can't produce on an efficient scale.

The rising North American share of world vehicle output and exports is bound to cause anxiety for automakers in Germany, France, Italy and the U.K.—countries that have already been squeezed in the U.S. market by Japan. If there is excess capacity in world auto factories, it will be in Europe, not in the U.S.

Those who interpret slumping car sales as a sign that U.S. carmakers "can't compete" invariably cite *Consumer Reports* surveys of repair records to prove that imported cars are far more reliable. Yet those same surveys have handed out plenty of bad marks to expensive European models, such as the Mercedes 190, Audi, Saab, Volvo, Merkur, Jaguar and Sterling.

The breathtaking price of Japan's new Lexus makes it mainly a threat to Mercedes, Jaguar and BMW. Even the impressive new high-end Buick sedan, or the best Continentals and Cadillacs, are far less costly than the big Lexus. To sell significant numbers of $40,000 cars, Japanese exports would have to be allowed to grab a large market share in Europe. Only a dreamer thinks that will be permitted.

But Europe and the Asian countries have a lot more to lose by turning protectionist against cars made in the U.S. than the Europeans lose by shutting out the Japanese.

We begin to see early signs of the U.S. potential for both increased exports and displaced imports in such cars as the Eagle Talon from Illinois, an all-wheel-drive turbocharged hot rod that began as a 50-50 venture between Mitsubishi and Chrysler. Also, the Ford Probe, produced here by Mazda, which is 25% owned by Ford. These state-of-the-art automobiles offer incredible levels of performance at prices that neither Japan nor Europe can duplicate at home. In the sedan market, one of the leading car magazines recently picked the Ford Taurus as the world's best value for the money; and the runners-up, such as Honda Accord and Toyota Camry, are also made in this country. Such cars are a great value in the U.S. They can also be a great value in export markets.

Looking at fundamental values rather than solely at old trends, the relative value of U.S. cars and trucks, including those with Japanese labels, is looking better all the time. Don't write off the U.S. auto business. It has a great future. ■

n Reynolds is the director of economic earch for the Hudson Institute of lianapolis, Ind.

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Streetwalker

Edited by Thomas Jaffe

Clarence who?

Is Donald Trump another Clarence Charles Hatry in the making? Hatry (1888-1965) was a British financier/speculator who built an empire in photographic supplies, cameras and slot machines. His collapse, according to testimony given before the Senate by John P. Morgan Jr., then head of the House of Morgan, was a principal cause of the 1929 Crash.

In 1929 Hatry tried to gain control

Clarence Hatry
Will Trump have the same impact?

of Great Britain's iron and steel industry. After buying sundry foundries and merging them, Hatry made a bid for United Steel Cos., which accounted for about 10% of the business in the U.K. To pull off the deal, however, Hatry needed to borrow heavily from London bankers, who turned him down. Enter British investors, who began selling shares of Hatry's various publicly traded companies. They figured, rightly, that Hatry would try to raise cash for United Steel by dumping stock. Share-prices of his companies fell, potential lenders backed further away and on Sept. 19, 1929 Hatry's bid collapsed.

The potential significance of Hatry's downfall was not lost on legendary Wall Street speculator Jesse Livermore. He concluded that while the incident, on the surface, appeared unrelated to the U.S. stock market, it represented yet another straw that could break the back of investor confidence. On Sept. 19 Livermore sold short U.S. Steel, General Electric and RCA, and kept shorting them right into Black Monday on Oct. 28.

Returning to the present, could Donald Trump's trouble snap confidence and lead the stock market down? By itself, says First Albany Corp.'s chief investment officer, Hugh Johnson (who brought the story of Hatry to Streetwalker's attention), the answer is no. Johnson: "Liquidity today, although not great, is improving. As for business conditions, although the economy could slow during the current and third quarters, we are a bit more optimistic about 1991."

But Johnson is still cautious. "Small things like Trump," he concludes, "have to be watched carefully. Suppose another large, unexpected default occurs; it might be enough to tip investors in the other direction."

Country of the month

Streetwalker has with great interest noted discussion of how the German stock market got ahead of itself on reunification hype and has now come crashing back to earth. Investors finally wised up to the fact that the play on the economic growth of Eastern Europe isn't something just around the corner but a long-term proposition, something we said almost six months ago (FORBES, *Jan. 22*).

Streetwalker went back to our source for the January item, Heiko Thieme, a New York-based market strategist and consultant to Deutsche Bank, to learn what his thinking is on European markets these days. Ever since the German market started peaking in February, says Thieme, many of the international money managers who helped fuel its rise by pouring in funds have rotated into other European markets on almost a country-of-the-month basis.

After Germany came France, which had a big move in late February-early March. Then it was the Swiss market's turn in April, followed by the U.K. in May. And over the past month or so Italy has rallied.

So who's next? Perhaps the Netherlands, says Thieme. One reason: The U.S. accounts for a big chunk of the profits of leading Dutch companies. As the dollar is strong, this will help them to record higher earnings on a guilder basis. Another plus: According to Morgan Stanley Capital International, the Dutch market sells for 9.3 times trailing 12-month earnings versus an average European multiple of 13. Meanwhile, it sports a respec able 4.7% average yield.

Thieme's two favorites are big one Unilever NV and Royal Dutch Petr leum. Both have shares that trade the U.S. on the Big Board—rece prices of 81⅞ and 75, respectivel Dutch stocks without American D positary Receipts that he likes are N tionale-Nederlanden (71.90 guilde or roughly $38), the Netherlands' la est insurer, and Elsevier, the cou try's biggest publishing house (88. guilders, or $47).

Buy air-conditioner stocks in winter

Fedders Corp., headquartered Peapack, N.J., has around a 30 share of the North American roo air-conditioner market. This has be a good business over the past t years, as overall industry sales ro smartly. Fedders stock has been winner, having more than doubl from its 1988 low to a recent NY price of 15½. (There are 19.2 milli fully diluted shares; the Giorda family owns about 14%.)

But although long-term prospec remain good for the $368 milli (1989 sales) company, analyst J Krasner of New York's Fahnestock Co. recommends taking profits.

Near term, inventories may be problem. The industry had about 25% carryover into the current selli

Fedders air conditioners at the plant
A cold stock in summer.

season from last year, and an unusu ly cool spring hasn't helped sal Krasner expects a pick-up with war er weather, but he thinks there m still be excess inventory by the end summer, which could lead to pr cutting and slower growth next ye Although Krasner expects Fedders earn $1.40 a share in 1990, up 2 over last year, he's only looking fo modest gain—to $1.50—in 1991.

John Maynard Keynes said t

w hats should be bought in win-
not summer. So it is with Fedders:
e that over the past 12 years the
k has peaked in May or June more
50% of the time. In 1990 the
k opened at 13½, rose above 17
spring, and has since backed off.
asner's advice: Don't buy Fedders
l it gets good and cold.

on with a fury

alyst Gordon McCoun of New
York's Brean Murray, Foster Secu-
is bullish on Furon Co. (former-
uorocarbon Co.). Based in Laguna
el, Calif., $332 million (sales)
n makes high-performance com-
nts from specially formulated
er compounds, metals and so-
icated plastics. Its markets in-
the chemical processing, aero-
and construction industries.
ween 1982 and 1988 Furon's
increased from $91 million to
million, and net income rose
y fivefold.
is strong profits growth is why
oun was not deterred when in
1989 Furon paid $86 million to
re three businesses from Bundy
In the process, Furon raised its
term debt from $66 million to
million, or nearly three times
holders' equity. But by the close
al 1990, ended Jan. 31, debt had
ly been slashed to $114 million.
w Furon plans to redeem $25
on of 8% subordinated convert-
ebentures. The debentures were
ue to be called until 2011, but
the stock—recent o-t-c price of
-trading well above the conver-
rice, Furon is retiring the issue
ly 19. If all the debentures are
rted, it will further lower Fur-
ebt-equity ratio, to about 1-to-1.
s will also help earnings, hurt
ar by interest charges. In fiscal
Furon was flat, at $1.33 a share
liluted. McCoun estimates that
fiscal year ending next January,
earn $1.54, up 16%.
Coun thinks there will be a buy-
portunity after the debentures
lled in July. He expects many of
rmer bondholders to sell their
hares, which will carry a much
yield than the stock (Furon cur-
yields just 1.4%). In his earn-
stimates, McCoun uses 8.8 mil-
ully diluted shares—in other
he's already accounted for the
illion-odd new shares that will
ing into the market.
Coun thinks the stock will go to
r the next 12 months.

Accountant Rene Oliver works out of his home so he can be there while his daughter Windy is young. And he buys her U.S. Savings Bonds for when she grows up. "As an accountant I know that Bonds are the best way to save for Windy's college," he says. Today's Bonds pay competitive rates, and now can be completely tax free when used for higher education. To find out more about the Great American Investment, call 1-800-US-BONDS.

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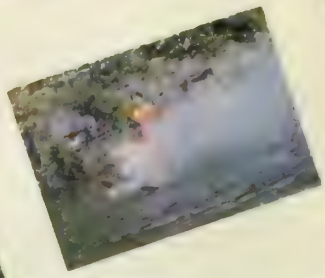

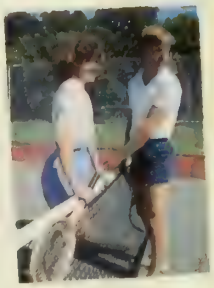

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Flashbacks

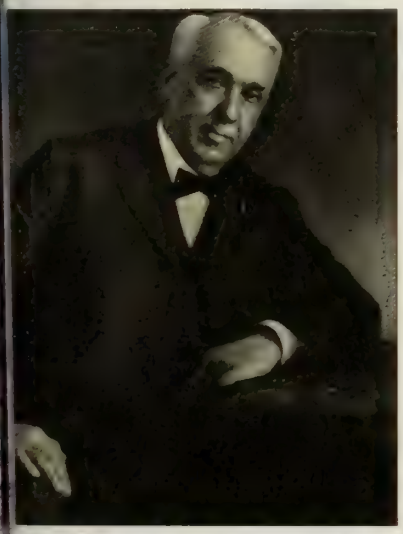
Edited by Dero A. Saunders

"The more things change. . . ."
Items from past issues of FORBES

·venty years ago in FORBES

om the issue of July 10, 1920)

Charles E. Hughes, Elihu Root and her legal luminaries are fond of de-ering beautiful orations on the nctity of law, the brotherhood of an, and other idealistic subjects. No e can quarrel with them for that. t what men do is usually more im-rtant than what they say. . . . Mr. ughes, clever man, got the govern-ent's case against William M. Wood nashed on the ground that the cloth ade by the American Woolen Co. is t clothing, and that, therefore, Mr. ood was entirely guiltless of any nnection with the profiteering ich has been so flagrant in clothing!"



ident Samuel M. Vauclain of Baldwin omotive Works

e wage earner in the works is le of the same stuff as the salaried oloyee in the office. Office em-ees everywhere are now granted ual vacations with pay. But how ny concerns arrange annual vaca-s for their wage earners with or out pay? . . . Human nature being t is, not many of those who per-n more or less monotonous tasks in, day-out and year-in, year-out go on doing good work without a ite."

ty years ago

n the issue of July 15, 1930)

ne of the biggest corporations in country are guilty of doing things ulated to accentuate depression alarm. They are carrying retrenchment to extremes. One example is their wholesale cancellation of contracts. This publication, in common with other business periodicals, has had contracts abrogated by corporations of the first magnitude. An order is not an order, apparently, in these days when pessimism is given unbridled rein."

"The new half-year opened a little more encouragingly. Evidences of business improvement admittedly are neither very tangible nor very impressive; yet there are growing indications that the down-swing has reached its nadir and that the country has begun to move, though very timidly, in the right direction."

Fifty years ago

(From the issue of July 15, 1940)

"For the first time in half a century, the country faces a shortage of American flags. Months ago flag manufacturers anticipated the shortage in view of growing patriotic fervor, but claim they were unable to avert it because of the difficulty in training workers. 'Flag making,' say they, 'requires highly skilled stitchers.' Some American flags are now being imported from Japan. Because they must carry 'Made in Japan' labels, however, most stores refuse to carry them."

Twenty-five years ago

(From the issue of July 15, 1965)

"So far, the escalation of the war in Vietnam hasn't affected defense spending much. The cost of fighting the war has risen by only a couple of million dollars a day since the U.S. abandoned the fiction that it was in the country only to advise the South Vietnamese Army and started pouring in combat soldiers and Marines. . . ."

A G.I. on patrol in Vietnam

"Under Secretary of Commerce Alan Boyd, President Johnson's new transportation boss, has asked a varied group of companies to a Washington meeting on the design of equipment for a high-speed train to be tested next year between Washington, New York and Boston."

Ten years ago

(From the issue of July 7, 1980)

"Jimmy Carter's April move barring U.S. athletes from this summer's Moscow Olympics may have reduced the Games to an offstage noise for Americans, but they will still be unable to escape them completely. Corporate sponsors of U.S. Olympians have been in the starting blocks for years with full-scale tie-in promotions, and many are going ahead with them anyway. General Mills, for example, has 10 million Wheaties boxes blazoned with . . . Olympic star Bruce Jenner, 1976 decathlon gold medalist."

Former Olympic champion Bruce Jenner

"If anybody should have nuclear plant neurosis it's the Japanese. . . . Yet in Japan today there are 16 atomic energy plants in operation and . . . plans to build 19 more."

Thoughts
on the Business of Life

Patriotism is easy to understand in America. It means looking out for yourself by looking out for your country.
CALVIN COOLIDGE

I must avow to your majesty [King George III] I have no attachment but to my own country.
JOHN ADAMS

What makes a nation great is not primarily its great men, but the stature of its innumerable mediocre ones.
ORTEGA Y GASSET

Patriotism: Your conviction that this country is superior to all other countries because you were born in it.
GEORGE BERNARD SHAW

A real patriot is the fellow who gets a parking ticket and rejoices that the system works.
BILL VAUGHAN

It is right to prefer one's own country to others, because we are children and citizens before we can be travellers or philosophers.
GEORGE SANTAYANA

You're not supposed to be so blind with patriotism that you can't face reality. Wrong is wrong, no matter who does it or who says it.
MALCOLM X

I like the Americans for a great many reasons. I like them because even the modern thing called industrialism has not entirely destroyed in them the very ancient thing called democracy. I like them because they have a respect for work which really curbs the human tendency to snobbishness.
G.K. CHESTERTON

After visiting several of America's most "fashionable" playgrounds, I have reached the conclusion that men who work hard enjoy life most. The men at such places can be divided into two classes, first, busy men of affairs . . . and, second, rich loafers. I was impressed by the obvious enjoyment corporation heads and other important executives were deriving from their vacation activities. . . . The idle rich fellows, on the other hand, although indulging in exactly the same activities, palpably were bored.
B.C. FORBES

In the beginning of a change, the patriot is a scarce man, and brave, and hated and scorned. When his cause succeeds, the timid join him, for then it costs nothing to be a patriot.
MARK TWAIN

Guard against the postures of pretended patriotism.
GEORGE WASHINGTON

Patriotism: The first resort of a scoundrel.
AMBROSE BIERCE

Abandon your animosities and make your sons Americans!
ROBERT E. LEE

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When I am abroad, I always make it a rule never to criticize or attack the government of my own country. I make up for lost time when I come home.
WINSTON CHURCHILL

When a whole nation is roaring patriotism at the top of its voice, I am fain to explore the cleanness of its hands and the purity of its heart.
RALPH WALDO EMERSON

Patriotism is a lively sense of responsibility. Nationalism is a silly cock crowing on its own dunghill.
RICHARD ALDINGTON

A Text . . .

Let not mercy and truth foresake thee: bind them about thy neck; write them upon the table of thine heart: so shalt thou find favour and good understanding in the sight of God and man.
PROVERBS 3:3-4

Sent in by Annabelle E. Williams, Corona Del Mar, Calif. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

The politicians were talking themselves red, white and blue in the face.
CLARE BOOTHE LUCE

What scoundrels we would be if we did for ourselves what we are ready to do for Italy.
CAMILLO DI CAVOUR

If I added to their pride of America, I am happy.
CARL SANDBURG

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–David Starr Jordan, Educator and Philosopher

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*J.D. Power & Associates Vehicle Dependability Index Study. Based on things gone wrong to 4- to 5-year-old 1985 model vehicles in the past 12 months.

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If you wish to follow up on the remarkable dependability and longevity accomplishments of Mercedes-Benz, visit your authorized dealer soon. Or call 1-800-228-9191 toll free, anytime.

ENGINEERED LIKE NO OTHER CAR IN THE WORLD

Forbes

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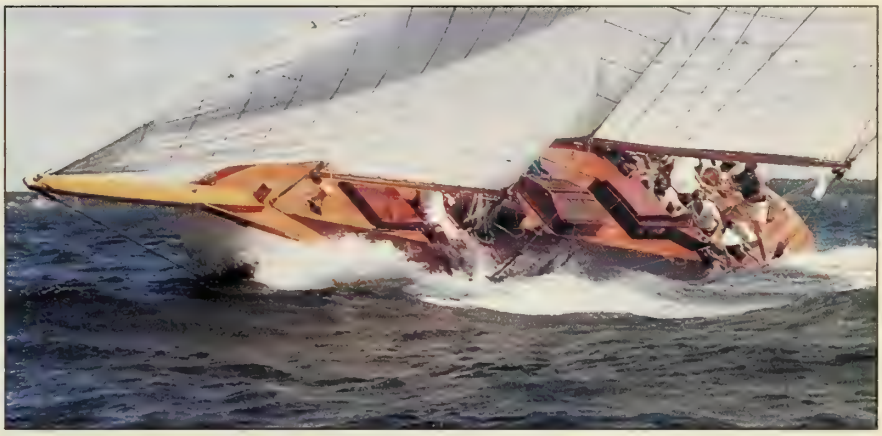

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Side Lines

We are not alone

If there are still people who think U.S. industry reigns supreme in the world, the merest glance at the contents of this issue will disabuse them of this outdated innocence. Of the world's ten biggest banks, only one is American: Citicorp. The U.S. has the two biggest automakers, GM and Ford, but the next three are foreign: Toyota, Daimler-Benz and Nissan. Only in computers and aircraft does the U.S. still lead in size.

To give readers a sense of how powerful many foreign-based multinationals have become, our statisticians have prepared what we call our international Super 50. These are the companies that score as biggest by a blended yardstick of sales, profits, assets and market value. Each of these companies is a major global presence, capable of competing with the biggest U.S. corporations. Of the top 50, 27 are Japanese, 8 are German, 6 British. Here are the Super 50:

Royal Dutch/Shell Group	Elf Aquitaine Group
Sumitomo Bank Ltd	Mitsubishi Corp
Dai-Ichi Kangyo Bank Ltd	Bank of Tokyo Ltd
Sanwa Bank Ltd	Mitsubishi Trust & Banking Corp
Nippon Telegraph & Telephone Corp	Suez Group
Fuji Bank Ltd	Sumitomo Trust & Banking Co Ltd
Mitsubishi Bank Ltd	B.A.T Industries Plc
Toyota Motor Corp	Sony Corp
British Petroleum Co Plc	Nippon Steel Corp
Hitachi Ltd	Long-Term Credit Bank of Japan Ltd
Matsushita Electric Industrial Co	Imperial Chemical Industries Plc
Industrial Bank of Japan Ltd	NEC Corp
Daimler-Benz Group	Cie Générale d'Electricité
Fiat Group	Bayer Group
Mitsui Taiyo Kobe Bank Ltd	Nomura Securities Co Ltd
Deutsche Bank Group	Mitsui Trust & Banking Co Ltd
British Telecommunications Plc	British Gas Plc
Nissan Motor Co Ltd	Volkswagen Group
Tokyo Electric Power Co	BASF Group
Toshiba Corp	Asea Brown Boveri Group
Barclays Plc	BCE Inc
Siemens Group	Hoechst Group
Nestlé	VEBA Group
Unilever	Kansai Electric Power Co
Tokai Bank Ltd	Fujitsu Ltd

None of this means that the U.S. is getting poorer. A foreign business operating here creates jobs and products and technology just as a U.S. company does operating abroad. We are not getting less pie, but other folks are getting thick slices, too.

So, too, with personal wealth. In this issue FORBES identifies 271 people and families with wealth in excess of $1 billion. Ninety-nine are from the U.S. With just one-half our population, Japan counts 40; smaller West Germany, 38.

The impressive information-gathering for this international issue was performed by Harry Seneker, our resident expert on wealth, and his able reporters. The statistical work was supervised by Senior Editor Ann C. Anderson.

James W. Michaels
Editor

15 ties an hour isn't exactly mass production...

but then, we're talking handsewn ties- the only kind Lands' End sells.

There's this quiet little place down in New Orleans, where everybody's busy, but nobody hurries, and the sound of machinery doesn't set your teeth on edge. (Oh, now and then, the sisss of an iron pressing cloth might get your attention, but that's about it, really.)

It's the home of a wonderful little handsewn tie company precisely suited to our homespun heart.

Here gifted needleworkers make the most of finely woven fabrics entrusted to their care from around the world. Fine natural fiber fabrics from Scotland, Italy, China, wherever. In Spring, they're likely to be cottons, silks, and linens. In Fall, the mix accommodates wools.

Once in house, patience works magic.

These elegant fabrics are carefully cut on the bias for maximum resiliency. Tailors with a good eye and sensitive hands mate them to fine brushed interlinings. Handpressing assures edges with that unmistakably proper roll. Then the ties are slip-stitched by hand, and even hand-bartacked at both the wide and narrow ends. This allows the tie to "give" so it drapes more naturally, and holds its shape.

And note this, please: the "keepers" on which we're proud to put our name are firmly stitched on—at all four corners—so they don't pull loose from the back of the tie after the second wearing.

Isn't it time you met our handsewn ties?

From the Crescent City to Dodgeville, Wisconsin, these marvelous handsewn ties arrive in a Mardi Gras parade of styles and colors. We feature them in our catalogs at prices unheard of anywhere. And men in the know are buying them—literally—by the dozens. (We even offer most of our styles in both Regular and Long, to accommodate the more generously-sized of you.)

All handsewn, of course. And all GUARANTEED. PERIOD.* Like every other item in our catalog. Surely you must at least see them, which you can do simply by calling us toll-free at 1-800-356-4444. Or, by sending us the coupon below.

Then, catalog in hand, you can also scan our array of dress clothing to wear with your freshly-minted handsewn tie wardrobe. And shop our assortment of colorful casual clothing and soft luggage, too. All down to earth values because we do business directly, bypassing middlemen.

Let us hear from you, by phone or by mail. Not just so we can sell you a tie. But so we can start building the ties that add up to a permanent relationship.

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Follow-Through

Edited by Edward Giltenan

First course?

Is Hamish Maxwell still hungry? The acquisitive Philip Morris chairman last month swallowed 80% of Jacobs Suchard, the Swiss maker of well-known European brands such as Toblerone chocolates and Jacobs Café coffee. The $3.8 billion deal makes

The insatiable Hamish Maxwell Alan Reingold

Philip Morris the third-largest food company in Europe, behind Nestlé and Unilever.

Apparently the deal was conceived and consummated in near-record time. Just three months ago Maxwell told FORBES that Europe looked appetizing, but the menu offered only nibbles. All the large companies that we listed as possible Philip Morris acquisitions were U.S.-based. "We were surprised as well," says Michael Miles, chairman of Philip Morris' Kraft General Foods operation. "It was just one of those opportunistic things."

It is unlikely that Suchard has sated Maxwell's appetite. Today Philip Morris still has the ability to take on as much as $13.5 billion in additional debt. Says Miles, "We are as prepared now to capitalize on an opportunity as we were before."

Keep an eye on the previous acquisition list: Borden's, with a market value of $5.2 billion; Campbell Soup, $7.5 billion; General Mills, $7.1 billion; Quaker Oats, $3.6 billion. Eventually even PepsiCo, at $20 billion, could be a takeover target.

One that didn't get away

It looks like the sweetest deal in Silicon Valley. A little-known outfit in San Jose called the Silicon Valley Group has bought two-thirds of Perkin-Elmer's prized optical lithography division for a mere $28 million. That seems like a bargain price, considering the division last year had $100 million in sales.

Why is the Perkin-Elmer division so special? It is the only U.S. operation that makes Micrascan—the crucially important machines that project images onto silicon wafers, a key step in making microchips for everything from autos to toasters to space shuttle gear. The division was long rumored to be a target of Nikon, Japan's optical giant. Says Dan Hutcheson, president of the market research firm VLSI Research: "Micrascan is the key to controlling the chip industry into the next decade."

The new ownership will come as a relief to those who worry about the U.S.' future in semiconductors. As FORBES reported last January, there was a depressing dearth of American bidders for the Micrascan unit, which looked sure to end up in foreign hands. Many U.S. bidders apparently felt that the Micrascan technology, despite its great potential, had yet to be proved. Papken Der Torossian was willing to take a gamble. Der Torossian, the 51-year-old president of the Silicon Valley Group, says euthusiastically that Micrascan's being in U.S. hands is wonderful news for the country's entire microchip industry.

Der Torossian: He got a good deal

"This is a dynamite machine," says Der Torossian. "Micrascan will give the edge in semiconductors back to the U.S." An ambitious goal.

Happy birthday, Imelda

Imelda Marcos got her birthday wish. Last week, on the day she turned 61, a New York federal court jury acquitted the former Philippine First Lady of helping her late husband, Ferdinand, steal over $200 million from the Philippine treasury, and using the proceeds to buy art, jewels and four prime Manhattan properties. FORBES wasn't surprised by the verdict. Just weeks ago we characterized the legal grounds for trying Marcos in

Lisa Quinones/Black Star

Is Imelda out of the woods?

the U.S. as "flimsy." The jury apparently agreed. "I don't think we had any right to try the case in the U.S.," says juror Sandra Alberts. "The racketeering charges were all based on money supposedly stolen from the Philippine government."

After the verdict, a spokesman for Philippine President Corazon Aquino insisted that Mrs. Marcos still faces a criminal trial in her homeland. But that is more face-saving than anything else. As FORBES noted, under Philippine law a criminal trial requires the presence of the accused. Given the Marcos family's popularity at home, it's likely that the shaky Aquino government will do everything it can to prevent Imelda from coming home, even for a trial.

IT'S NOT JUST THE NEWEST SAAB. IT'S THE LATEST SETBACK FOR THE SPIRIT OF COMPROMISE.

Today, there are "safe" cars, luxury cars, performance cars, practical cars—a car for virtually every niche, it seems, and a niche for every car.

Except at Saab, where we've always built cars to fit not niches but needs—the needs of human beings unwilling to settle for something one or more dimensions short of a complete car. And the new Saab 9000S vividly illustrates the point.

Powered by the largest engine Saab ever built, the 9000S is a true European sports sedan, one capable of running all day at triple-digit, test-track speeds. Yet that engine achieves stirring response not at the expense of efficiency, but because of it.

A computer-driven engine management system—aided by Saab's patented Direct Ignition System—ensures that combustion occurs at the optimum moment for both performance and efficiency. And its emission control system is vigilant when it comes to maintaining exhaust requirements.

But the 9000S will also come as a pleasant surprise to those for whom cramped conditions are part of the price you pay for performance.

Its interior, according to *Motor Trend* magazine, is "cavernous." In fact, it is the only European import to meet EPA specifications as a "Large" car.

Fold down the rear seat, and you'll create enough cargo space to fit a six-foot sofa. Giving you a sports sedan that can become a station wagon at will, but without the performance penalties wagons sometimes impose.

Nor has safety been compromised for the sake of performance.

In the 9000S, the precise rack-and-pinion steering, anti-lock braking system and spirited new engine are considered to be safety components—designed to help you to avoid accidents in the first place.

But when the unavoidable occurs, the 9000S excels. Front and rear crumple zones absorb the force of impact, cushioning the steel safety cage. The driver's-side air bag and supplemental restraint systems cradle the passengers.

The result is vividly demonstrated in data compiled from over 250 insurance companies by the Highway Loss Data Institute. Its latest study ranks 9000-Series Saabs the safest cars in their class. Safer than Volvo or Mercedes-Benz.

Overall, the 9000S is what one editor called "a symphony on wheels...super-quick, impressively refined, exceptionally spacious, very comfy and flawlessly constructed."

In short, a car, not a compromise. And a "symphony" with a lower price of admission than the thinner melodies offered elsewhere.* It also offers daily performances at your Saab dealer, where you're invited to experience the 9000S through a test drive.

SAAB

WE DON'T MAKE COMPROMISES. WE MAKE SAABS.

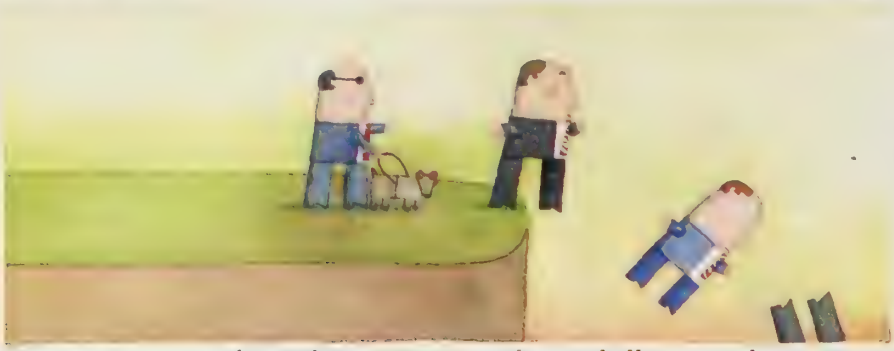
*MSRP: $25,495, excluding taxes, license, freight, dealer charges and options. Price subject to change. © 1990 Saab-Scania of America, Inc.

Forbes Informer

Edited by Eric Schmuckler

Suckered

John Segal



Comes now news that Sid Bass, Lee Bass and professional money manager Dort Cameron III are suing underwriter Kidder, Peabody over the $52 million the trio invested in an offering of First Executive stock last September. Back then, insurance giant First Executive traded near $12; since the insurer's junk bond portfolio collapsed, the stock has languished at around $3.

Furious, the Bass group has sued Kidder. Though the plaintiffs acknowledge that they are "sophisticated investors," they claim that Kidder's prospectus "disguised" First Executive's financial problems and "obfuscated" the company's financial picture by neglecting to mention that the value of First Executive's high-yield bond portfolio was way down and that "such values were declining further." An odd allegation, considering that Cameron was a member of Mike Milken's inner circle, and that the junk bond market began cratering around the same time as this offering was launched. And even a cursory look at the prospectus reveals that First Executive was in trouble. Sure, prospectuses make for dull reading, but even sophisticated investors like the brothers Bass should remember the phrase "Investigate before you invest."—Gretchen Morgenson

But the bankers said . . .

It's well established that a company's board of directors is supposed to look out for its shareholders in a takeover and get them the best price. Now a lawsuit attacking the 1988 RJR Nabisco buyout aims to establish a corollary, namely, that shareholders can sue investment bankers directly. Previously, courts would not recognize shareholder suits against investment bankers.

The New York suit, which has survived two challenges and is now on hold, pending action on a related suit in Delaware, is a class action by shareholders against Lazard Frères and Dillon, Read, the investment bankers that advised the special committee of directors weighing bids for RJR. Among other things, the suit alleges Dillon and Lazard failed to properly value the competing bids. The suit notes RJR management's bid had three-quarters of a billion dollars more cash in it, while KKR's winning bid had more junk bonds. The bankers didn't take enough time to analyze the final bids, the suit charges, and shareholders have seen RJR junk trade at steep discounts.

Didn't KKR pledge to reset the notes by next April so that they would trade at par? And haven't the bonds rallied strongly? Yes, to both questions. But whatever the merits of the suit, the Wall Street legal community is watching it closely. "If the shareholders win here, investment bankers are going to be even more careful, because there is an additional group of plaintiffs to whom they are directly responsible," says Peter Weil, a business finance lawyer at Kaye, Scholer.

Garbage association

Vancouver-based Envirowaste Industries took out a full page ad in *Investor's Daily* last month to brag about its relationship with a company named International Process Systems. Envirowaste stock jumped 60%, to C$1.60, on the Vancouver exchange.

IPS, a private company in Connecticut, was recently profiled by FORBES *(May 28)* for its promising technique for composting yard waste and sewage sludge. The ad, playing the IPS connection for all it's worth, has IPS President Archie Albright steaming.

"This is an outrageous stock hype and a totally inappropriate touting of the relationship," says Albright. All Envirowaste has, he explains, is a nonexclusive license, price to be negotiated, to find projects suitable for IPS' technology. After venting his anger to Envirowaste's officers, he was assured the touting would cease. But then Albright saw some stock promotional materials, complete with the ad and a reprint (without permission) of the FORBES piece.

Envirowaste President Doug Halward calls the whole thing a "misunderstanding," and says the promo packets went out before he heard from Albright. Affecting the urchin's mantle, Halward pouts: "I'm not in this for a stock play—that insults me."

Sandino demoted

What becomes a legend most? Well, Nicaragua's newly elected president, Violeta Chamorro, is honoring her late husband by putting his likeness on new inflation-fighting currency. Pegged one for one to the value of the U.S. dollar, the new 50 "gold" cordoba note, worth $50, features Pedro Joaquín Chamorro, the newspaper editor whose 1978 assassination set off the revolution in Nicaragua.

What about Augusto César Sandino, the Yanqui-hating guerrilla fighter? His name and image were expropriated by the Marxist Sandinista Front and used on its currency. Sandino, it turns out, is not

Sandino's old 1,000 cordoba bill
Fewer cordobas, more value.

ignored in the new currency scheme. He's just getting demoted—in cordoba terms. Sandino was on the Sandinistas' old 1,000 cordoba note, now worth a fraction of a cent. But his likeness will grace the new 20 cordoba bill, worth $20.—**Joel Millman**

The Peter principal

In mid-May France's Hachette announced that *Woman's Day* magazine was on the block. Advertising is soft generally, and *Woman's Day* (4.7 million circulation) is feeling the pinch along with the so-called Seven Sisters, the women's service books that also

John Abbott

Peter Diamandis relaxes by the pool
And Hachette is taking a bath.

include *Family Circle* and *Good Housekeeping*. Operating profits have declined from $27 million when Hachette bought the magazine to $16 million this year. Word is that Hachette will probably have to accept less than its $200 million asking price and may end up with no more than $150 million.

Caught in the middle is Peter Diamandis. He bought *Woman's Day* and 20 other magazines from CBS' Larry Tisch in 1987 and flipped them within a year at a $350 million profit for himself and his backers. Diamandis' principal is out, but Diamandis remains because he agreed to run the magazine until December 1990.

All this is said to have put quite a strain on relations between Diamandis and Hachette. After all, it is now obvious that the French publisher overpaid and probably faces a minimum $50 million bath on the sale.

A lower price should attract some offers. Two candidates: Bauer Group, the German outfit that crashed the category by launching *First for Women*, which has been struggling, and Macfadden Holdings, owner of such checkout counter powerhouses as *National Enquirer* and *Star*.

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[1]Source: IDC 1989 Terminal Census

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The world's largest computer exposition is CeBIT, held in Hannover, Germany. It is the premier international showcase for the latest and finest computer products from around the world. And in 1990, the European computer experts who judge at CeBIT awarded their top **THE WORLD IS GETTING WYSE.** honor for design excellence to a Wyse personal computer, our Model 3225. Several PC brands are better known than Wyse to the world at large. But it isn't particularly surprising that one of ours was selected for this prestigious award. Wyse design expertise has been winning a following among computer professionals for nearly a decade. And today, we have an installed base of over 3,000,000 terminals and personal computers. Our design goal always is to add value. The ingenious design of our terminals, for example, gives them more features, styling and ergonomics than the competition. For less money. As a result, Wyse is the largest independent maker of computer terminals! Similarly, our new family of UNIX multiprocessor systems offers better price/performance ratios than any similar line. Plus the investment protection of expandability. You'll find such value reflected throughout our family of PCs, as well. All are extensions of the design philosophy and capability honored by the CeBIT judges. To learn more about their winning ways, just call 1-800-438-9973.

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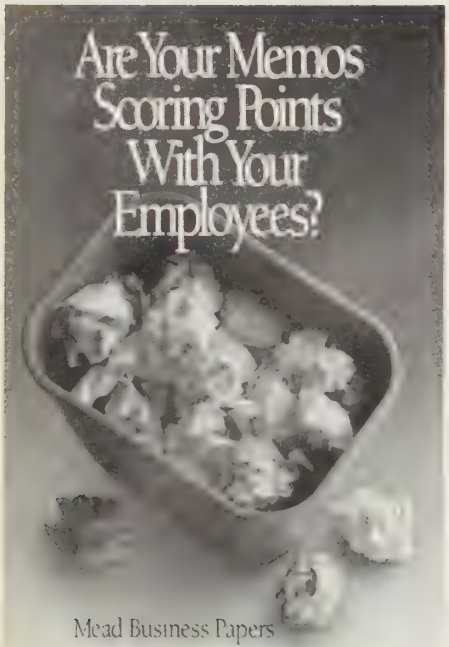

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Readers Say

Mixed signals

SIR: Your·Money Guide issue *(June 25)* gives new meaning to the definition of short-term trade. Frederick E. Rowe Jr. would have us shorting Tiffany & Co. at $48 a share. Just 50 pages later Ann C. Brown advises us to buy Tiffany & Co. at $48 a share. At least we don't lose any money.

Maybe FORBES should print a disclaimer aimed at slow readers somewhere near the front of each issue!
—Howard I. Steiner
New York, N.Y.

What's in a name?

SIR: Re your article on Certified Financial Planners ("Meaningless label," *June 25*). After I received my CFP in 1982, I did not affiliate with any of the ancillary professional organizations because of my sense that their real purpose was to generate fee income. The current registry of CFPS, which requires not only a registration fee but continuing education credits (for which there is a charge, of course), simply confirms my suspicion.
—Robert F. Allen
Richmond, Va.

SIR: I appreciated (and found appalling!) your article. I am a CFP and Registry Financial Planner (IAPP) who resigned from both organizations earlier this year in protest of the lack of serious commitment to defining and regulating a profession.
—Neil C. Hokanson
Santa Fe, N.M.

SIR: Shame on you for your shallow research and bitter attack on those most capable of practicing financial planning—CFPS. Certainly the financial industry has been one fraught with abuse. But there are many of us in the industry fighting hard for our clients' best interests. We want the abusers and frauds prosecuted. But we don't deserve to be lumped together and collectively dismissed.
—William John Grega
New York, N.Y.

SIR: Let's see, one bad CFP means they all are no good. Ever hear of a hasty generalization? Your article is a textbook example.
—Michael Wertin
Irvine, Calif.

Kathleen Campbell/Allstock

Hormone freaks?

Biotech cows

SIR: Re your commentary on gene-altering drugs for agricultural biotechnology *(Fact and Comment, May 28)*. Can you really compare them to a tractor and plow? Maybe a better comparison would be to DES, sulfur or other wonder drugs.
—Bill Harrington
Marengo, Iowa

SIR: Wisconsin's Governor Thompson is to be congratulated for standing against drug company pressure to use bovine growth hormone to increase milk supply. Dairy cows are already hormone freaks, with their swollen udders barely clearing the ground and producing vast quantities of milk far beyond the needs of their calves.
—Jane E. Preston
Butler, Pa.

Speaking in tongues

SIR: Re "Divorce to the north?" *(June 11)*. Let us not forget that our immigration policy and tendency to fight any English language legislation may soon lead to equally troubling and destructive trends here as well. Portions of Florida, Texas, California and even New York City are, for all purposes, "foreign," with little compatibility with the tenets of Americanism.
—Jim Courtney
Houston, Tex.

Credit where credit's due

SIR: Re "Level playing field?" *(June 25)* on tax-exempt credit unions. Credit unions have been successful

because they have consistently provided America's consumers with superior service and superior value. The savings and loan industry has been an embarrassment that will cost the citizenry billions. The banking industry, with numerous problems of its own, is crying foul.

How in the world can anyone seriously consider making substantive changes to the only part of the financial system that works—America's credit unions?

—Mark Hawkins
President
Riverside County Schools Credit Union
Riverside, Calif.

Cosmetic solution

SIR: Re Fact and Comment *(June 11)*. National Center for Policy Analysis' John Goodman is right on—group medical insurance costs will bury many a small business.

—Earl Adler
President
Eaco, Inc.
Fort Lee, N.J.

SIR: FORBES' endorsements of the economics of medical care as practiced by the cosmetic surgeon failed to mention the best part. The patient pays in advance.

—John M. Sheehan, M.D.
Redlands, Calif.

Old reliable

SIR: You missed the point on Toyota ("The new number three?" *June 11*). Stylish, fast cars are a dime a dozen. What sets Toyota apart is reliability. I own two Toyotas, a 1980 and 1981 with 100,000 and 150,000 miles, respectively. Both have yet to see a repair shop.

—Franz S. Amussen
Salt Lake City, Utah

New name

SIR: Your story "Identity crisis" *(June 25)* referred to Blue Arrow. On March 29, 1990 Blue Arrow changed its name to Manpower Plc, partly in recognition of the major contribution made by its largest subsidiary, U.S.-based Manpower Inc.

—Walter G. Kozlowski
Vice President-General Counsel
Manpower
Milwaukee, Wis.

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Fact and Comment

By Malcolm S. Forbes Jr., Editor-in-Chief

HOW TO HELP THE SLUGGISH ECONOMY

Cut taxes, don't raise them.

• Capital gains. A reduction here would stimulate the financial markets, thereby reducing the cost of capital. It would also stimulate the flow of capital to optimum opportunities and new enterprises, ensuring our future in an increasingly competitive, high-tech world. Federal receipts from this levy would go up $10 billion to $15 billion in the first year. Empty state coffers would be replenished.

• Social Security. The current payroll tax was based in 1983 on pessimistic assumptions. Growth and productivity have been better. This year's boost should be rolled back to the 1989 level. Payroll taxes hurt job creation, especially in small businesses. A cut would stimulate growth.

Other measures would also help.

• The Federal Reserve should let interest rates come down. Gold prices wouldn't be so low if inflation were about to take off.

• The Fed and the Treasury should forswear bashing the dollar for trade balance purposes, which would do wonders for bond prices.

Two principal drains on government budgets—education and health—are both suffering deep systemic flaws. Genuine reform in both areas would ease fiscal pressures and deliver better results.

SUBVERSIVE ADVICE

The U.S. and Western Europe are seriously harming attempts by former Eastern bloc countries to move to free markets by inflicting bad advice upon them.

Poland, for instance, proclaims that it has had free-market policies in place for almost six months, policies pushed and approved by the International Monetary Fund and lauded by most Western governments and economists. Alas, Warsaw has brought about a traumatic austerity without removing impediments to people's increasing their output of goods and services.

Poland's wage controls make it impossible for labor to go where the opportunities are; they are a disincentive for workers to do better. Payroll taxes and other levies remain prohibitive. The ability to buy and sell property is still restricted. Foreigners find repatriation of money difficult. Import barriers remain. State-owned companies still enjoy government-sanctioned monopolies.

Westerners do Poland and other once communist countries ill by recommending mindless belt-tightening instead of attacking obstacles to economic growth, such as weak currencies and truly excessive taxation and regulations.

Transition to a market economy is bound to be disruptive but needn't be harsh. Output can grow during this time of extraordinary change. It will simply come from new sources.

Too many economists don't understand what constitutes a free economy.

WALESA ON THE WARPATH

The man who more than any other individual brought about the collapse of the Soviet Union's East Europe empire is receiving and delivering broadsides. Critics say that while he was the perfect figure for fighting communism, he should remain aside in favor of the skilled administrators and technicians necessary to modernize Poland. But there's more to Walesa's criticisms than a hankering for the limelight.

Glen Davis

GDANSK—"I'm not an economist," said Lech Walesa in a recent interview, "but I see better than most economists." He

(Continued on p. 385)

TWO ANNIVERSARIES: KOREA . . .

Forty years ago this summer, communist North Korea invaded South Korea. Seeing an ominous analogy to Munich, the U.S. sent in troops with—would you believe it?—the blessing of the United Nations. The war lasted three years and took more than 50,000 American lives. Well over 1 million Koreans perished.

UPI/Bettmann Newsphoto

Despite numerous diplomatic and military blunders, President Truman was right to intervene. It showed the Kremlin that containment meant more than economic and military assistance to allies. We would shed our blood as well. It also meant Japan would remain in the Western camp instead of going neutral or even adopting a pro-Russian stance. Geographically, Korea is to Japan what Europe's low countries were to Britain—political knives at the throat.

Saved from communism, South Korea eventually became one of the most extraordinary economic success stories in history and is now, painfully, converting to a genuine democracy. It's a day-and-night contrast to the militaristic, impoverished, Stalinist North.

The subsequent forceful U.S. presence in Asia permitted much of that region to get its bearings and become, like Japan and South Korea, a hotbed of economic activity.

One irony of Korea has largely gone unnoted: Our initial setbacks—North Korea overran the South that summer except for a perimeter around Pusan—prevented the rise of a Vietnam-like guerrilla movement in South Korea. Southerners got a taste of how murderous a Northern victory would be; their own hated government looked decidedly more attractive in comparison. As a result, North Korean attempts to recruit guerrilla cadres failed miserably.

. . . VIETNAM

Nineteen hundred and ninety marks another anniversary, one that no one wants to remember. Twenty-five years ago we made our full-fledged jump into the Vietnam quagmire. We forget, though, that initially this intervention had a salutary impact on other countries in that region. When Indonesia's powerful communist movement tried to gain power in 1965, the rejuvenated army successfully resisted. Thailand, Malaysia, Singapore and the Philippines were all given breathing space so that, by the time we ignominiously withdrew from Vietnam, they were strong enough to withstand communist pressures.

UPI/Bettmann Newsphoto

Victorious Vietnam became an isolated, poverty-stricken sinkhole, an inspiration to no one.

NEWSPAPER HEADLINE: AT&T STOCK DIVES ON QUARTERLY OUTLOOK

A growing number of institutional money managers want a greater say in the running of American corporations, allegedly to improve these companies' performances. Yet it is these money runners who stampede out of a stock at the slightest bit of disappointing news concerning that most short term of yardsticks, quarterly earnings.

What makes these sheep think their influence will better America's competitiveness?

HE'S PROVING HIS CRITICS WRONG

Many in the publishing world greeted Mort Zuckerman's purchase of *U.S. News & World Report* several years ago with audible groans. His meddling will run a respectable publication into the ground, faultfinders moaned. Indeed, *U.S. News* goes through editors the way Italy does governments or the Yankees do managers. But unlike the Yankees and like Italy (which has had one of the most impressive economic performances since World War II), Zuckerman's ways of doing things are working well on the editorial front. The magazine today is the most useful, readable newsweekly.

M Singer Outline Press

Mort's mag stands out in analyzing what's happening. Among its first-rate commentators are John Leo on education, Josef Joffe on Europe, Michael Barone on politics and Ben Wattenberg on national trends, particularly on demographics. Zuckerman himself has become a peerless pundit. His recent piece on the Soviet Union, "End of the Promised Land," was eloquent.

The magazine's "conversation" every week with a noted expert or writer is usually fascinating. And each issue has plenty of useful tidbits dealing with everything from getting cut-rates at well-known hotel chains to the latest treatment for shingles.

Zuckerman has confounded the skeptics.

Quality is Job 1.℠

Profile in Quality #19:
Continued Recognition.

For the second time this year, Ford Motor Company has been honored by prestigious Motor Trend Magazine. Motor Trend has named the 1990 4WD Ford Aerostar "the hands down winner" as the Truck of the Year. The Aerostar joins the 1990 Lincoln Town Car which was recently named Car of the Year by Motor Trend. Receiving these awards is further evidence that Ford's total commitment to quality is producing results. When Quality is Job 1—you don't do it any other way.

Ford, Mercury, Lincoln, Ford Trucks.
Our goal is to build the highest quality cars and trucks in the world.℠

Ford

Buckle up—Together we can save lives.

FORD MOTOR COMPANY

Science Teacher Fred Holtzclaw Has Successfully Created Energy In A Classroom.

In the nearly 20 years that Mr. Holtzclaw has been teaching high school science in Tennessee, he's learned a lot about energy. How to impart enthusiasm, for instance. The hard work needed to overcome inertia. And most difficult of all, what to do about burn-out.

He's not alone. Every day, teachers all over the country face the same challenges.

That's why Martin Marietta is helping to underwrite a new regional Academy for Teachers of Science and Math at the University of Tennessee. It's an intensive program of study and discussion for Martin Marietta Fellows; outstanding educators in all grade levels. Through the Academy, the private sector, government and academia are all joining together to support a critical educational initiative by President Bush.

It's important to help keep things moving in the classroom, and teachers like Fred Holtzclaw are the right place to start. If we want to fire-up the masterminds of tomorrow, the best thing we can do is keep our outstanding teachers energized today.

MARTIN MARIETTA

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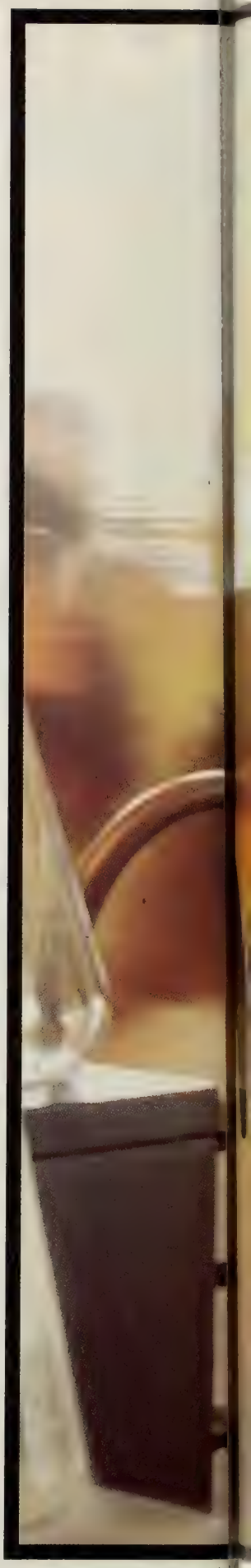
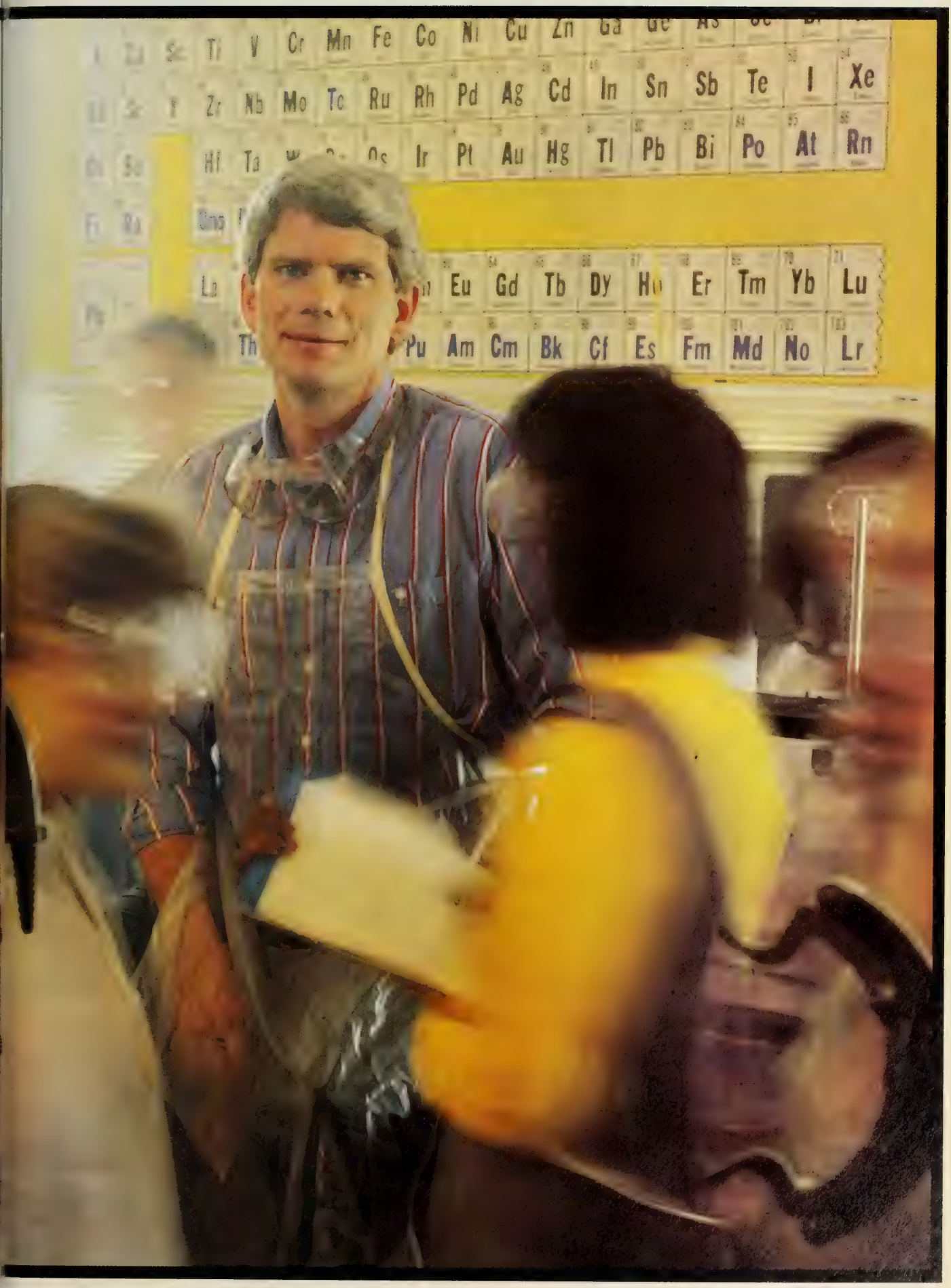
MASTERMINDING TOMORROW'S TECHNOLOGIES





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Other Comments

Friendly Enemies

WARSAW—Lech Walesa reiterated his calls for a strong president who would use decrees, if necessary, to accelerate the political and economic transition from communism. He said Poland was being threatened by members of the Communist elite who are helping themselves to shares in state enterprises being sold as private companies. "I'm afraid our beautiful revolution will come to nothing, that others will come along and destroy it all," he said. "That's why I have to battle even my friends."

—Stephen Engelberg, *New York Times*

Texas Knowhow

An astronaut wants to cool off from the pressures and publicity of NASA, so he drives up to a little bar in College Station [Tex.]. The bartender keeps staring at him and then finally says, "Aren't you one of those astronauts?"

The astronaut answers yes, but he wants to get away from the publicity and really doesn't want to talk about it. The bartender says, "Well, we got a couple of engineers who've been building their own spaceship out back. Why don't you take a look?"

The astronaut doesn't want to, but he agrees to see it. It's a mess of beer bottles, cans and tamale husks. The bartender says, "You fellas at NASA think you're something, going to the moon. But we designed this old spaceship to go to the sun." The astronaut shakes his head and says, "I hate to tell you this, but this thing will be incinerated before you get within a few hundred miles of the sun."

The bartender says, "We got that all figured out. We're gonna go at night."

—Herman Gollob, senior vice president, Doubleday & Co., in *Texas Monthly*

DRAWING BY WEBER ©1989, THE NEW YORKER MAGAZINE, INC.

"Best therapy I know. Make some money, feel better."

Take Care

It is my personal quirk to help people [who get into trouble] in the mountains. But there is no obligation for another person to do that. When you go into the wilderness you take your own responsibility to get yourself back out. If you are relying on others to take care of you, and then you get in trouble and start suing the world, you ought to have your head stuck in a bucket.

—Dr. Drummond Rennie, *Outside*

$150—Negotiable

1970 AMERICAN MOTORS GREMLIN

Design critics complained that this car looked as if it had been rear-ended while on the showroom floor. The Gremlin was so cramped that when passengers swung the front seat forward to get in back, the horn honked. The engine tended to conk out inexplicably on right turns. Seats were covered in vinyl so slick that the driver slid away from the steering wheel going around a corner.

New: $2,000.

Now: $150, negotiable.

—*Wall Street Journal*

Trumpet of Babel?

We have reason to rejoice in the enormous successes of Western broadcasting to Eastern Europe and the U.S.S.R. Without them, the miraculous year of 1989 would perhaps not have come about with so little violence. At the same time I wonder what sort of legacy these successes will bequeath us. Our problem may be that we have succeeded too well.

No one on our side conspired to build up the Western world in the imagination of our listeners into something larger and better than it is—our audience did. They did it because, after half a century or more of communist rule, their need to believe that somewhere "out there" a juster, more decent and more prosperous world existed to which they could aspire was immensely strong. It was the thing that helped them to survive.

Leading opinion makers in Prague, Warsaw and Budapest are profoundly disturbed by the influx of our junk culture. They are puzzled by the breathless pace and infantile standards of much of our commercial broadcasting and demand something better. . . . We have this marvelous trumpet of technology in our hand—have we anything to say?

—Gene Pell, president, Radio Free Europe/Radio Liberty, in a speech to USIA International Council Conference

Money is only important if you don't have it. I've been broke lotsa times in my life, but I ain't never been poor.

—Mike Todd, theatrical producer

Property Rights

A man can be as eager and pleased over the accumulation of a few hundred dollars as he can be over a few million. That is the reason that property is so secure in a democracy. Almost everybody has some property; and the man who has a little will fight for that little as fiercely as the man who has a great deal.

—*Great Riches*, by Charles W. Eliot, president of Harvard University (1869-1909)

Home Run Pitcher

The subject was old-timers games, notes the *St. Louis Post Dispatch*. Former pitching star Jim Bunning told the *St. Petersburg Times*:

"The first time I played, I got two quick outs in the inning and couldn't get the third one. There were 11 straight people up. Nine runs and I still didn't get them out. They finally had to come and get me.

"Somebody asked our catcher, Joe Garagiola, how hard I was throwing. He said, 'I don't know, I haven't caught one yet.' "

—"Jab's Gab," *Benton County* (Mo.) *Enterprise*

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-Barbara Champney

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Most technology companies —including us—have spent the last 10 years or so trying to beat the living daylights out of each other.

But who really got hurt in the crossfire?

Customers.

Business people who just had a job to do, but were forced to choose sides, not solutions.

That's why we're revolutionizing the focus of our entire company. And sending hundreds of applications engineering teams to work side-by-side with our customers.

We're looking toward you now. Not over our shoulder at IBM or anybody else.

We're looking at the way you work. The jobs you do. The problems you face. The goals you have. The answers you need.

And we're looking with an open mind.

The new Wang will create solutions based on your needs, not only our technology. Solutions that add value to established standards wherever possible, be it IBM, UNIX, Wang VS or whatever.

But let's not kid each other. We're no saints in business suits.

We're in this to win, just like anyone else.

But unlike anyone else, we know the only way we win, is if you win.

LET'S GET TO WORK. WANG

Commentary
on Events at Home and Abroad

By Caspar W. Weinberger, Publisher

THE STATE OF THE UNION'S SCHOOLS

With spring graduations just behind us, it seems a good time to write about America's public schools: the foundation of our future greatness—or future mediocrity.

There are now some 23 million in the U.S. who are "functionally illiterate" (a reasonably polite way of saying they cannot fill out a job application—or even read a ballot).

In addition, another 40 million are classified as "marginally illiterate"—which is the formal term for people who cannot read what 8th graders are required to read. Most jobs that use written material now require a 12th-grade reading level.

Paul Denny

UAW-GM classroom: teaching more than the basics

Worse yet: Illiteracy is growing in the U.S. by about 2.3 million persons a year, and we have a national dropout rate for high schools of 29%. As many as 60% of high school students drop out of some inner city schools. And, because of our successful emphasis on birth control, the number of high school graduates is falling drastically: from 3.15 million graduates in 1977 to an estimated 2.3 million in 1993.

We have all heard that we are no longer very good in math and science. How bad are we?

The most recent international assessment of mathematics and science, conducted by the National Science Foundation and our U.S. Department of Labor, found that U.S. students finished *last* in math among the 11 countries surveyed, and near the bottom in science.

Yet those two are the skills we most need to increase our competitiveness in today's world.

We are also short of qualified teachers. Many forecasts say we will need a million new teachers in the next five years, but in that period we will graduate only about 625,000 qualified to teach.

It is worse for teachers of math and science. Only about 1,500 education majors a year are qualified to teach math and science. But we need about 20,000 each year for the next decade.

As a result, more and more American businesses are trying to teach their employees the basic skills that should have been acquired in our public schools. Business spends about $25 billion a year just to do that, and the United Way Foundation says U.S. corporations expend about $60 billion a year for additional employee education. General Motors alone has paid out about $1.6 billion over the past six years to help train its employees and has one of the most comprehensive educational programs in the U.S.

What can we do? The short, easy answer given by many educators is: "Give us more money." But, since over 70% of public education funds goes to pay teachers and administrators, the question naturally arises: How is paying more money to teachers whose students are not acquiring even basic skills going to improve the quality of education?

A recent Brookings Institution book—*Politics, Markets and America's Schools* by John Chubb of Brookings and Terry Moe of Stanford University—contends that each school needs far more autonomy.

Years ago when I was in the California Legislature, and again later at HEW in Washington, I urged that we use the voucher system, under which schools would have to compete for students whose parents would be given state funds and the right to have their children attend any school, public or private, they wished. This proposal encountered fierce opposition, as did other suggestions that schools and teachers be graded so parents could make an informed choice.

Good schools are those with strong leadership, rigorous academic standards, a high level of parental support and good discipline. But those things, say Chubb and Moe, occur only in schools that have a great deal of independence. Standardized governmental controls, the lack of incentive for any one public school to excel, and the dismal results of our students when measured against international standards all argue for more freedom of choice for parents, students *and* for schools.

Clearly, money is a vital part of education, and improved salaries may lead more to choose a teaching career, or to stay in it. But in the final analysis, if all schools had to compete for pupils and were measured by results, it seems clear our schools *would* improve. At the very least, it is worth a trial.

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The Audi V8 Quattro is a car so complete that it offers only one option: Pearlwhite clearcoat metallic paint.

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In fact, the Goodyear Eagle GA Touring Radial is a tire where luxury meets performance. And both win.

The Audi V8 Quattro is not the only car on which the Goodyear Eagle GA Touring Radial can be found.

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As you'll discover, every Goodyear Eagle GA Touring Radial is speed-rated. It is available in all-season, mud and snow versions.

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GOODYEAR

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What was it they taught you in driver's ed? Don't panic. Pump your brakes. Locking them up will only make the skid worse. It seemed simple enough at the time.

In an emergency, however, a person often finds out that knowing what to do and doing it are two different things.

But anti-lock brakes are designed to remember what to do. Every time.

In effect, they do the brake pumping for you. Many times a second. So your wheels don't lock up and you can stop or regain control of your car more quickly. That prevents many accidents, and makes many others less severe.

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We're so convinced of the value of anti-lock brakes, we'll offer a discount of 10%* on the collision and liability portions of your auto insurance if your car is equipped with four-wheel anti-lock brake systems.

This is just one of the ways we're working to lower insurance costs. We're also committed to making a real change in the car insurance system itself. And making insurance more affordable for everyone.

In the meantime, if you'd like to receive a list of cars equipped with anti-lock brakes, write to us at: Allstate Consumer Information Center, Public Issue Department 300, P.O. Box 7660, Mount Prospect, IL 60056-9961.

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What's Ahead for Business

Edited by Howard Banks

WORLD FARM DEAL IN THE OFFING

President Bush says current world trade talks are "top priority"

LOST BEHIND ALL THE SOUND BITES on President Bush's new willingness to raise some kind of taxes is movement on another important front: the pressure the U.S. is putting on the European Community and Japan to cut agricultural subsidies. Disagreement over this issue is threatening world trade talks—the Uruguay round of the General Agreement on Tariffs & Trade (GATT). The President says the top U.S. international economic priority is GATT. The U.S. aim is to win benefits for U.S. companies—especially those in industries involving intellectual property, overseas investment and services.

Farm subsidies aren't cheap. The 26 major industrial countries will this year subsidize a farm output of around $1 trillion by around $240 billion, down from a peak subsidy of $270 billion in 1988. So powerful are most countries' farmers that nobody now talks of completely eliminating subsidies, just phasing them down.

The price-depressing effect of subsidies

SURPRISINGLY, IN ITS EFFORT TO CUT FARM SUBSIDIES, the Administration may get some grudging support from U.S. farmer interests—if subsidies to other countries' farmers are also cut, says trade expert Dale Hathaway of Consultants International Group. As part of the deal to cut the budget deficit now being negotiated between the White House and Congress, next year's budget will likely cut a further $2 billion to $3 billion from this year's $11 billion U.S. farm subsidy.

Why, then, would U.S. farmers be supporting the Administration? Because, according to a joint OECD and World Bank study, world food commodity prices, once freed from the depressing effect of subsidies, would rise—by around 10% for grains, 25% for sugar, up to 30% for meat and as much as 80% or more for dairy products.

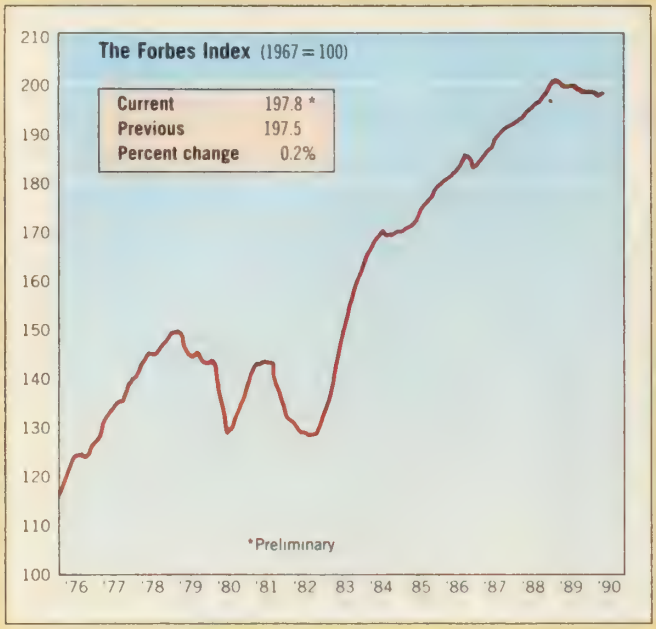
The biggest gainers would be European and Japanese consumers. U.S. consumers would also gain, though to a much lesser degree. Many American farmers—those in the beef, pork, and grain lines—would benefit, as would around 40 food-exporting countries, notably Australia, New Zealand, Brazil, Argentina and Thailand. The biggest losers would be European and Japanese farmers; heavily subsidized U.S. dairy, cotton, sugar and peanut farmers; and less-developed countries that import food.

The pain-gain negotiating principle

FOR ALL THE TRADE ROWS IT CAUSES, world farm trade ($250 billion in 1987) is dwarfed by the other sectors. World trade in merchandise goods is around $3 trillion, and in services (which is growing five times faster than trade in goods) around $600 billion. The U.S. also loses around $60 billion a year through the theft of intellectual property (in such areas as pharmaceuticals, fine chemicals, movies and textbooks).

A broadly based trade agreement in GATT, then, is clearly a prize worth striving for, especially as the price—reduced subsidies for U.S. farmers—is one that, for the rest of the economy, is more gain than pain.

The Forbes Index



The rate at which Americans put their income into savings reached its highest level since 1982. While personal income was up 0.4% in May, consumers saved 6.2% of their aftertax income. This is almost twice the 3.2% annual savings rate in 1987. At the same time, there are signs that the manufacturing sector is rebounding. During May durable goods orders shot up 3.9%, while industrial production increased 0.6%. What's weak? The housing sector: New housing starts are up 1% from April, but this is the lowest May result since 1982.

Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	10.0%
Auto sales year to date vs. 1989[1]	Ward's Automotive	–5.1%
Index of leading indicators May vs. April	Dept of Commerce	0.8%
Trade balance 12 months ended April 1990	Dept of Commerce	–$106 bil
Producer price index May vs. 1989[2]	Dept of Labor	3.1%
GNP 1st quarter vs. 4th—annualized growth	Dept of Commerce	1.9%†
NBER Experimental Recession Index[3]	Natl Bureau of Economic Research	7.0%

[1]U.S.-based manufacturers, excludes imports, as of 6/20/90. [2]Finished goods. [3]May 1990. †Revised

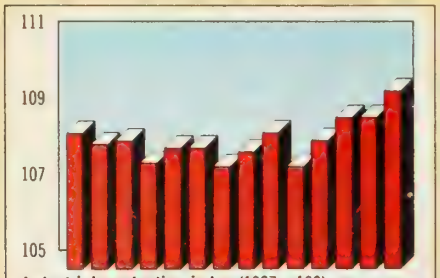
Index Components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

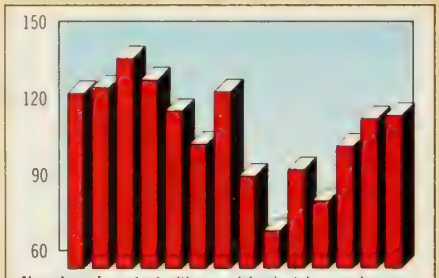
To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

Consumer price indexes (1982-84 average = 100) all urban consumers, unadjusted (Dept. of Labor)

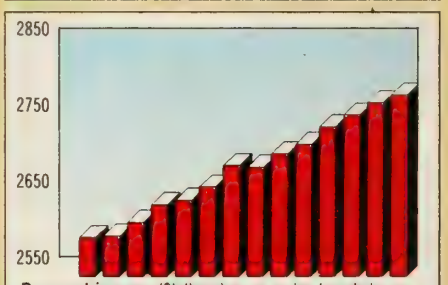
Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)



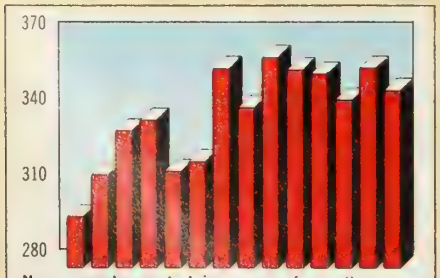
Industrial production index (1987 = 100) seasonally adjusted (Federal Reserve)



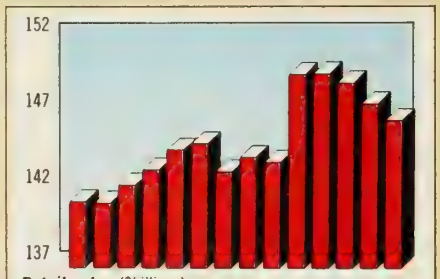
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



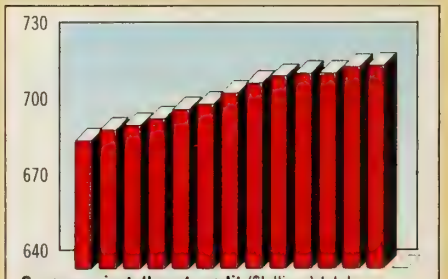
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



New unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)

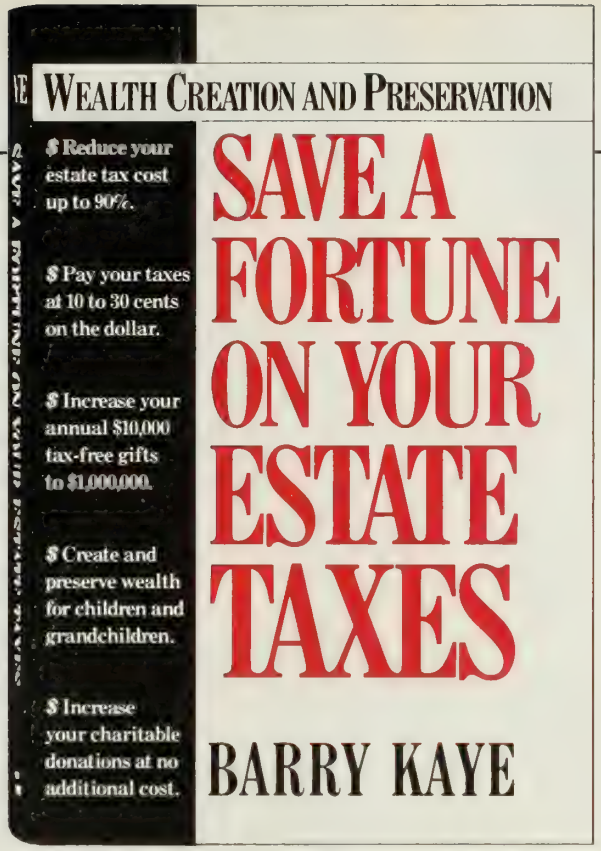


Retail sales ($billions) seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

A M J J A S O N D J F M A M
1989 1990



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While we toast the collapse of socialism, our own economy is in far from perfect shape. Do we really understand why socialism fails? The way things are going, we don't act as if we do.

Too early for a party

By Susan Lee

WHAT A GRAND PARTY. Oh, sure, there are a few no-shows like Cuba and North Korea, but almost everyone else has come: Here are Hungary, Poland, Sweden and Brazil all wearing party hats with "I am a capitalist" slogans. And such a feeling of amity! Democrats and Republicans, conservatives and liberals, all toasting the end of communism. It's surely a sweet moment for the U.S. as the leader of free-market economies. While socialism was crumbling, the U.S. was racking up 92 months of business expansion with high employment, low inflation, and a stock market that has more than doubled in value.

But hold on. If we expect to be celebrating the triumph of capitalism at the end of this decade, we should cork the champagne. Every party has a pooper, and this one is no exception—it's us. We have the right economic system, but we're not running it that well. If we expect to be a beacon for nations emerging from the darkness of socialism, we had better start managing our own affairs better.

In the U.S., economic growth has been slowing. Barry Bosworth of the Brookings Institution says, "The de-efficiency of growth will be the problem of the 1990s." He's right. Gross national product has been flagging since 1988; indeed, for each of the last two quarters, it has languished at under 2%. Scarcely enough to keep up with population growth, and leaving nothing to raise the American people's standard of living.

Even more scary, average weekly earnings, in real terms, slipped throughout the 1980s, reflecting the fact that growth has been the result more of an expanding work force than of our ability to work better. Put it this way: If our standard of living has improved somewhat, it has done so mainly because more people are producing, not because we, as individuals, are producing more.

Clearly, U.S. economic growth should—and can—be better than it is. The blunt truth is that the U.S. is suffering a milder form of the same confusion that has decked Eastern Europe and Latin America: The distinction between what constitutes a private and a public good has blurred, and too many resources are being channeled through the government. As William Niskanen of the Cato Institute says, "The federal government is getting involved in things that were beyond the imagination even 20 or 30 years ago." A society that lets the government provide goods and services that can be supplied by private business is dabbling in socialism. Since socialism doesn't work, why should we think that semi-socialism will work?

What's the distinction between a public good and a private good? A public good is something that can be

Pete Saloutos/Stock Market

consumed by more than one person and, once having been supplied to one person, cannot be denied to another. National defense is clearly a public good, as are public parks and streetlights. You get them whether you pay lots of taxes or none at all. Consider: If you install a streetlight in front of your home, you provide illumination for yourself and for your neighbors—but at your expense. You can't prevent people from benefiting from your streetlight, but you can't make them pay for it.

Thus, it makes sense for the government to step in and provide such illumination. The trouble arises when government makes private services and goods into public ones—for instance, garbage collection, mail delivery, housing and education. In some cases, even things like roads and airports can be provided by the private sector more efficiently than by the government. Indeed, once private goods become public ones, economic efficiency suffers. Why? Because it almost always costs the government more to do these jobs. Sometimes the higher cost is masked by government subsidy—as with the New York City subways—but from the economy's point of view, the subway remains high-cost, low-quality transportation.

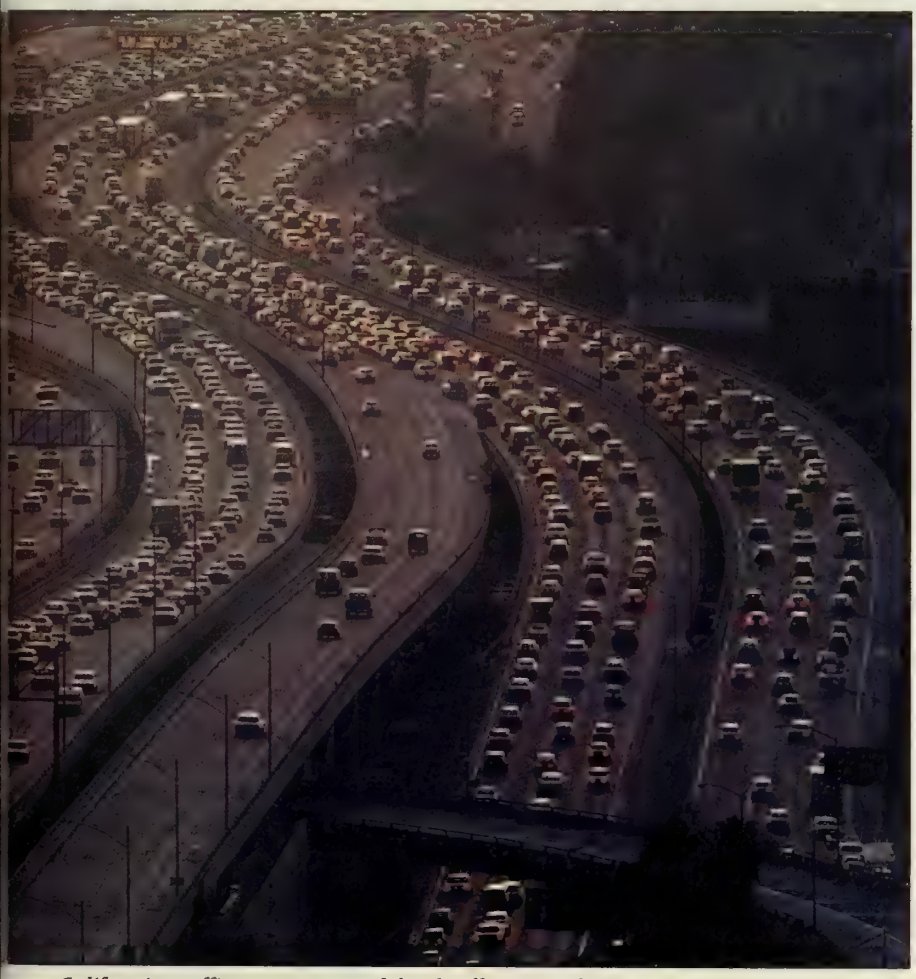
Some government spending, of course, is meant to be not economically efficient but socially desirable, such as transfer programs for the poor or the sick. But even this kind of spending can be misdirected when it has the indirect effect of discouraging economic activity—as Social Security discourages capable old folks from reentering the labor force.

For all of Ronald Reagan's efforts to slow the growth of government spending, the federal budget has kept swelling. In 1982 dollars it was $509 billion in 1970, $699 billion in 1980 and will be $912 billion in 1990. Including state and local spending and transfer payments, government accounted for 34% of the economy last year. This is much too high. Yet Congress and most local governments are talking more about raising taxes these days than they are talking about getting the state out of providing private goods.

Beyond its direct grabbing of resources through taxing and borrowing, government in the U.S. hinders economic growth in other ways. Consider the federal government's role in the three sources of economic growth: investment in physical capital, investment in human capital and improvements in technology.

Larry Dale Gordon/Image Bank

Tax-advantaged ski home in Aspen
"We're overhoused."



California traffic, a symptom of the de-efficiency of U.S. growth
Enviromaniacs don't want market forces in the clean air debate.

Investment in physical capital

The most obvious way to increase productivity, or the one that leaps immediately to mind, is to increase investment in physical capital—factories, machines, equipment. Give people better factories and more machines, and they will produce more. Here, the record is mixed.

The so-so news is that, in terms of investment in capital, our rate is okay by historical standards but below that of other nations. Many of our plants and the equipment in them are obsolete compared with many factories in Western Europe and Asia.

The good news is that the 1980s saw the highest manufacturing productivity in the postwar period, with gains averaging 4.6% annually since 1982. Put another way, there was a 45% increase in manufacturing output while employment hardly changed. That qualifies as a real explosion in productivity.

Yet the overall productivity record could be much better. The most powerful way to increase the rate of capital formation would be to get the rate of national savings up—that would lower the cost of capital to industry and make it more profitable for businesses to invest in productivity-enhancing machinery.

How to do this? Lawrence Lindsey

(FORBES, *Mar. 5*), a Harvard professor who now works in the White House as special assistant to the President for policy development, says the surest way to boost national saving "is for government to cut its own rate of consumption. Cutting government spending is more cost effective than changing tax laws, pension laws or changing the incentive to save."

Why? Several reasons. With the government running deficits, it must borrow money that would otherwise be invested by business. The same is true with corporate income taxes: A dollar taxed away from GM or IBM is a dollar less for reinvestment. So, while giving people stronger incentives to save, like tax-advantaged retirement accounts, is okay, slowing the rate of government spending achieves the same end in a more direct fashion. (Hey! Governors Mario Cuomo and Jim Florio, put down your champagne flutes and listen up: If it is productive jobs you want for your states, raising taxes and redistributing income won't get them.)

A second way to goose investment in physical capital is to make sure that whatever capital the economy has is allocated to its most efficient use. As Robert Lucas, of the University of Chicago, puts it: "The tax structure depresses capital accumulation below what it ought to be." With our high tax rates on capital gains and the double taxation of dividends, money that might flow to investment is diverted.

At the same time, our tax laws encourage investment in housing. No question that good housing is one of the things people prize mightily, and no question that the U.S. is the best-housed nation in the world. But why continue to encourage spending on housing by making mortgage interest, especially on second homes, tax deductible? The tax money forgone by the government to subsidize private housing might better be used to give tax relief to savings and investment. Jobs and international competitiveness ahead of vacation homes and gazebos.

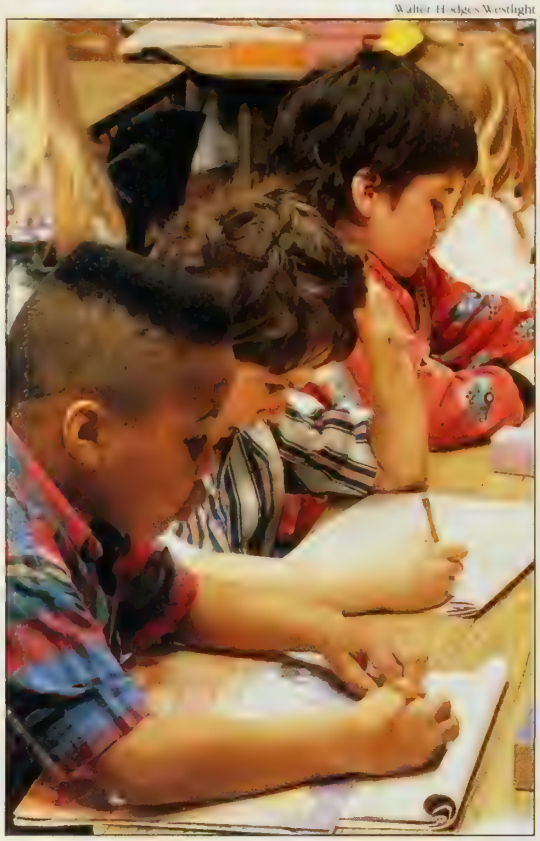
Says Dale Jorgenson, economics professor at Harvard, "If we are going to continue plowing half of our tangible asset investment into the household sector, which is what we are doing now, that's just going to be a catastrophe. Our tax structure has already made us the most overhoused and overautomobiled country in the world." One small example: Just consider the condos in Aspen or Vail that are used only during the skiing season and the second cars adorning weekend homes that are used for an occasional trip to the local hardware store. As for so-called affordable housing, most potential buyers are in such low tax brackets that the tax subsidy is of limited value.

Changes in technology

Technology is a second source of economic growth. While government funding for basic research is a necessity, it is not at all clear that government should be providing money for applied research and development, such as high-definition television and Sematech. "Government should not be in the business of supporting industry-specific or product-specific projects," says John Taylor, Stanford professor and member of the Council of Economic Advisers. When it does, we end up with economic disasters such as the shale oil and synthetic fuels projects that emerged from the oil crisis of the mid-1970s.

A better way would be for the government to improve the legal environment to create incentives for risk-takers. For example, the government can provide protection of intellectual property rights and reform product liability laws. And it can provide tort reform that would prevent greedy lawyers from crippling innovation with lawsuits.

Walter Hodges/Westlight



Learn now, produce later
A voucher system is the way to go.

Investment in human capital

Investment in human capital is the third biggie for economic growth. Studies suggest that 10% to 15% of economic growth after 1945 was the result of improvements in education. Currently the U.S. spends more than 4% of GNP on elementary and secondary schools alone. Nobody can say we're starving the educational system. But that money isn't spent wisely. The U.S. hasn't, for example, been able in the past decade to raise overall high school completion rates—a frightening fact for an economy with a declining need for unskilled workers. In terms of per-pupil expenditures (elementary and secondary schools), the U.S. spends more than most other industrialized nations. Yet American students do worse on proficiency exams.

Few people would argue that education should be entirely privatized, but there is plenty of support—outside the educational establishment, that is—for some kind of voucher system. As Robert Lucas of the University of Chicago says: "It is a question of whether subsidies are going to go exclusively to government-owned schools or to parents who then have the choice where to spend those subsidies." Lucas is arguing for the injection of a bit of market discipline into a system that right now is almost free of market discipline.

Under the voucher system, for example, parents would receive money in the form of vouchers to buy educational services. Parents would decide where to spend their vouchers—where their kids go to school—just as they decide which grocery store to shop at. Those schools that didn't provide services efficiently and satisfactorily would go out of business.

There is one area that is clearly a public good and one where voters seem to be demanding increased government involvement: cleaning up the environment.

But just because the government is called upon to provide a healthier environment doesn't let it off the hook of creating market-based incentives for the private sector to clean up the environment. As John Taylor of the Council of Economic Advisers puts it: "The real tradeoff comes in making sure we don't spend a lot of money for

environmental actions that result in only modest improvements." Or make the situation worse: Removing asbestos from schools and offices could cost as much as $100 billion; yet there is evidence that ripping out asbestos could be more dangerous than letting it remain.

Here is where the real problems start. Not only is it difficult to measure the benefits of, say, clean air, it is almost as difficult, it seems, to measure the costs of getting it. The Business Roundtable, for example, estimates that modifications to the Clean Air Act could cost anywhere from $14 billion to $104 billion annually. In Washington, figures range from $19 billion a year to over $50 billion.

One way around these flabby numbers is to look at what pollution controls have already cost.

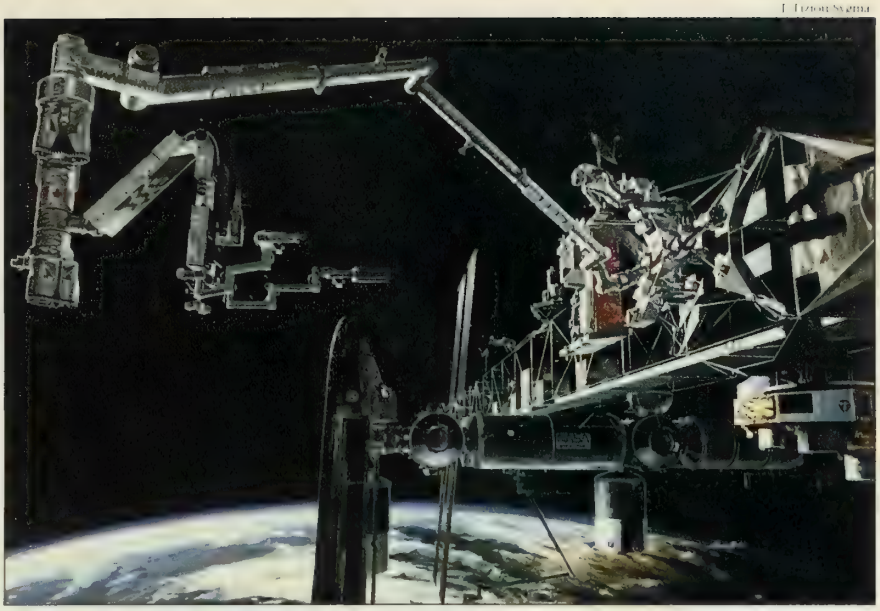
According to a study done by Dale Jorgenson and Peter Wilcoxen, between 1973 and 1985 the long-term reduction in GNP because of environmental regulations was 2.59%—that's about $150 billion a year. "What that means," says Jorgenson, "is that the agencies responsible for environmental regulation are purchasing services for us collectively, namely clean air and water and a nontoxic environment, at a cost equivalent to 10% of the government budget. It's a pretty good-size item." And it's going to get bigger.

How do you use the market to get cleaner air? Consider the commendable provision of the new Clean Air Act to reduce sulfur dioxide emissions from utility plants by using tradable-emission allowances; that is, after the overall level of pollution is agreed on, utility plants will receive emission allowances—those plants whose pollution is below their allowance are then free to trade their excess permits to plants whose emissions are above the allowance.

Economists are wild about tradable permits because they represent a market-based solution to the problem of how to make sure that costs are minimized. Tradable permits are an advance over the old way of mandating environmental cleanup with so-called command-and-control regulation, which is inflexible.

Indeed, the tradable-allowances approach should mean savings of at least 20% annually—that's many billions of dollars over the next two decades—compared with command-and-control regulation. Trouble is, enviromaniacs aren't hot to have market forces injected into the clean air debate; their concern is not with costs.

No one argues that we shouldn't have cleaner air, better education and strong scientific research. The question for the U.S. for the 1990s is, Should resources be channeled through the markets for these purposes or through the government? When we choose the government we penalize economic growth. Lawrence Lindsey is on the mark when he says: "The one sure way we have of increasing our growth rate, our standard of living, is to limit government." Now, if Congress could get this message through its head, then we could really get down to holding a joyful wake over the death of socialism. ■



Government should fund basic research, such as for space stations
But leave applied research to the private sector.

Up, up go the prices of movie tickets, and up, up go Hollywood's revenues. So why are the big theater chains doing poorly?

Squeezing the customers

By Kathryn Harris

MOVIEGOERS SPENT a record $5 billion in 1989, and current box office revenue is ahead of last year's. Yet these are rocky times for the four national movie theater chains: Some margins have deteriorated *(see chart, p. 40)*, and three are actually shrinking their circuits.

United Artists Entertainment Co., the nation's largest chain, with 2,766 screens, plans to sell or shut down 17% of them. AMC Entertainment Co., number two in size, and Cineplex Odeon Corp. have closed or sold movie houses. At General Cinema Corp.'s theater unit, operating income plunged 44% last year.

How can it be that movie theaters are taking in more money but keeping less of it? For starters, there has been no increase in moviegoing. The higher revenue comes from higher ticket prices. About 1 billion tickets were sold in 1970 and about 1 billion will

Who's making it in the movies

National theater chains have seen operating cash flow margins squeezed. But strong regionals are prospering by controlling costs and cornering local markets. Margins are also higher if theaters are owned, not leased.

be sold this year. Meantime the average price has crept up from $1.65 in 1971 to $4.11 in 1988 (the most recent data available). That would be all right if the movie houses were pocketing the full price increase. They are not. The movie studios are grabbing the lion's share of it. At one major studio, an executive says privately that his company garnered 52% of the box office gross from its films in 1989, up from 47% in 1988. You want to show *Days of Thunder* or *Dick Tracy* these days, you pay up.

Some theater operators have been heavily discounting some tickets to get more customers, but Disney and Paramount are imposing per capita minimums on film rentals. A theater operator is still free to give the customer a break, but the break comes out of his pocket, not Disney's.

The basic problem is that the number of movie screens in the U.S. increased dramatically in the Eighties, from 17,675 in 1980 to over 23,000 in 1990. This has increased the demand for films without increasing the supply, thereby creating something of a seller's market for Hollywood.

Several smaller, toughly competitive theater companies have managed to buck the outgoing tide of profitability. Last year 962-screen Carmike Cinemas Inc. (FORBES, *Aug. 22, 1988*) increased its operating cash flow as a share of revenues to 22.9%, up from 20.5%, while net income rose 88%, to $6.2 million. The secret? The Columbus, Ga.-based chain focuses on communities with fewer than 100,000 people, where Carmike is often the sole or dominant player. In competitive situations, the moviemakers can play one exhibitor against another. In Carmike communities, they do business with Carmike or don't show their wares.

In Milwaukee, the 153-screen Marcus Corp. produced even higher margins from its movie theater division, reaching 26.5% in 1989. Marcus owns its real estate, as do two other shrewd regional operators: New England's Sumner Redstone, who owns 650-screen National Amusements Inc., and California's Raymond J. Syufy, whose Syufy Enterprises runs 335 screens in five western states. These operators prefer to own theater sites, because in a pinch they can close a moneylosing movie house. If they paid rent, they'd be stuck with a long-term lease.

Studios are not only taking more of the box office gross but also are telling theater operators how to run their business. Walt Disney Co. and Warner Bros., for example, have decided they don't like advertisements on the screen, so they've banned the practice in theaters showing their films. Theater operators may as well kiss the ad revenue good-bye, once existing contracts with advertisers expire: It's hard to buck Warner and Disney, when those two studios accounted for over 31% of the 1989 box office gross, with hits such as *Batman* and *Honey, I Shrunk the Kids*.

The return of bidding is another indicator of Hollywood's growing power over its customers. Disney, Warner, and to a lesser extent Universal and other studios, are asking theater operators in selected markets to submit bids for individual movies, in hopes of extracting the very best terms. Very different from during the movie glut of the mid-1980s, when major Hollywood studios preferred "relationships" with theater operators who tacitly guaranteed to run most of a supplier's films.

In late 1988 the United Artists chain—with 10% of the nation's screens—tried to fight back. It refused to bid on Disney pictures throughout most of 1989. UA finally made peace, after losing Disney's stellar summer pictures, *Honey, I Shrunk the Kids* and *Dead Poets Society*.

As UA learned, there is no magic in owning 2,766 screens if they're scattered over 39 states. There is no "bulk rate" available to the national chain. The so-called Paramount consent decrees, which settled federal antitrust suits brought a half-century ago, require movie distributors to sell their films on a theater-by-theater, movie-by-movie basis.

In practice, negotiations take place city by city. Which helps explain why the smaller theater chains can do better than the big ones. Marcus, in its Milwaukee stronghold, for example, wields as much clout at the bargaining table as United Artists does in that market. And in smaller cities, where Marcus is the sole operator, it can dicker quite successfully with the biggest Hollywood studios, keeping 55% or more of the box office gross.

The probability is that Hollywood's greed will prove self-defeating. As the number of movie houses shrinks, the bidding for movies will become less intense and some of the balance of power will shift back to the exhibitors. A good thing: Studios now take in more money from sales to video, TV and overseas markets than they do from American movie houses. But the leverage in these newer markets is created by the movies' performance at the box office. As in any industry, the manufacturer should be rooting for the health of all of its retail outlets. ■

Created with $10 billion in government subsidies, Airbus Industrie seems able to stand on its own feet. Be warned, Boeing.

Talking tough

By Howard Banks

TYPICAL OF THE Continent on the eve of 1992, Airbus Industrie, the European civil airliner consortium, is bursting with confidence. Orders it has already taken will ensure that by 1993-94 it will deliver a 40% world share of all wide-body airliners. An 800-aircraft backlog puts it on track to grab the 30% share of the world jet airliner market that was the original aim of the founders of the European project, 21 years ago.

The giant in the business, Seattle-based Boeing, most recently has felt forced to launch its new twin-engined airliner, the 777, to compete with the market success of the Airbus A330 *(see box, p. 42)*. Since Boeing has 60% of the world jet market and Airbus is on its way to 30%, there are slim pickings for the rest, most notably hard-pressed McDonnell Douglas.

The market has become so strong that Airbus has shaken off its traditional price discounting and has been slowly pushing up prices on its aircraft. Says Airbus' newly reappointed managing director, Jean Pierson, 49, "The consortium should be operating in the black by the end of 1993."

Pierson smiles. He is, of course, not counting the billions—maybe as much as $10 billion—that the European governments have sunk into developing the company and its products. This was pure subsidy, in the beginning a highly political make-work program frankly intended to reclaim part of the jet airliner business from the Americans. Pierson is talking only about operating profit, covering the cost of current production.

Nevertheless, Airbus is finally close to standing on its own. It now offers a full range of aircraft, modeled after Boeing's "family" concept. Airbus airliners start with the 150-seat, single-aisle, short-to-medium-range A320. Next comes a series of short-to-long-range, twin-aisle, twin-engine types carrying from 210 to 385 passengers up to 5,000 miles. Finally, scheduled to fly in 1992 is a very long-range (8,500 miles) four-engine A340.

The consortium's newfound strength and competitiveness reflect a new feistiness on the part of the European companies that are partners in Airbus. West Germany's MBB, with a 37.9% share, is now owned by private-sector Daimler-Benz. British Aerospace (20% share) was privatized in 1981 and is turning into a highly aggressive company. Even French state-owned Aérospatiale (37.9% share) is now embarked on its own toughening up and cost-cutting drive and is talking of selling part of its equity to its workers. (CASA of Spain has the remaining 4.2% stake in Airbus Industrie.)

One result of all this is that development money for new Airbus programs no longer depends on government handouts. The $500 million upfront cost of the stretched A321 now

Airbus Industrie

Front fuselage of an Airbus A320 arriving for assembly at Toulouse
Putting planes together faster, cheaper and with more flexibility.

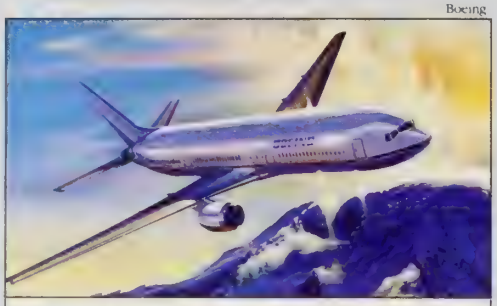
Managing director Jean Pierson
Predicting profits by 1994.

Richard Kalvar-Magnum

Boeing: A bit vulnerable

Sometime this summer, Boeing should announce the formal launch of its big new twin-engine 777 airliner. Nonrecurring cost, including the needed new factory at Boeing's Everett, Wash. plant, where the 747 jumbo is built: close to $4 billion. The 777 is a direct response to Airbus. Without it, concedes Philip Condit, executive vice president of Boeing's Commercial Airplane Group, the Seattle-based giant is a "bit vulnerable" to Airbus. "But with the 777 we will have a family of good products in each market segment," he says.

Boeing



Boeing's newest project, the 777
Paying close attention to Airbus.

What has been emerging as a significant gap in Boeing's fight with Airbus is a replacement for the nearly 700 DC-10s and Lockheed 1011s now in service. This is a market segment that Airbus has had more or less to itself. Its A330 twin-engine and long-range A340 four-engine designs have accumulated nearly 200 orders between them, even though the first, the A340, won't fly until 1992.

The first customer for Boeing's 777 could be United Airlines, where management is anxious to place the order before the proposed union-led buyout is completed, to set in concrete their ideas for the future development of the airline. Unlikely a prospect as it may sound, the participating unions are asking Boeing (and enginemaker GE) to cough up some of the buyout finance, as a quid pro quo for the business. Among others, American Airlines, British Airways, Delta, All Nippon Airways and Qantas are also preparing to order.

Boeing wants to avoid being seen as offering a "me too" counter to Airbus. So the 777 will have a bit fatter fuselage, to allow more internal room, especially for business-class seats. It will have two versions, one offering a range of more than 7,000 miles. For airlines like American, concerned about gate space, there will be a version with folding wingtips—yes, seriously—even though this adds 2 tons to the weight and $4 million to the cost (FORBES, *July 24, 1989*).

The 777 will also offer a distinctly different version of Airbus' fly-by-wire electronics for the cockpit. A highly technical, but crucial, marketing fight is developing here between the two manufacturers. Airbus has a pure form of so-called fly-by-wire controls (a form of computer control through which the pilot flies the aircraft), designed to prevent a pilot from making a maneuver that threatens the safety of the plane. Initial investigations suggest, however, that by wrongly setting the computers, an Indian Airlines' crew flew their A320 into the ground in February, killing 93.

An added complication: In new-design Airbus cockpits, the usual control column and wheel are not in front of the pilots. Instead there are sidesticks, which the pilot in the left seat (the captain) uses with his left hand and the copilot in the right seat with his right hand. When one pilot moves his sidestick, the other pilot's stick stays still. Similarly, the throttles do not react to computer-driven changes to the engines. Boeing argues that this might reduce visual cues for the pilots, who could therefore become disoriented in flight.

Boeing, by contrast, is making a big deal of the fact that the new 777 will have a more traditional cockpit, with moving throttles and control wheels that move together, even though these add weight and cost.

Is Boeing nervous about Airbus' recent successes? "Our nerve endings are not overly sensitive," Boeing's Condit says. Airbus Industrie's successes "do not cause me to fall on the floor." Maybe Boeing's not falling on the floor, but it's sure paying attention.—**H.B.**

in development was, for instance, raised by the partners on their own. Last month the European Community, bowing to U.S. pressure in the GATT negotiations over aircraft subsidies, offered to end production subsidies for Airbus.

The latter isn't much of a concession, considering that Airbus probably no longer is in such need of the handouts. It has just ridden out a four-month strike at the British Aerospace plant that makes the wings for all Airbuses. This cut planned deliveries in 1989 from 138 aircraft to 105 and, says Jean Pierson, cost the company $180 million to $200 million in operating profit. It was a strike the company could ill afford in the past. When it ended, Airbus announced that it is increasing production rates to around 180 a year, an alltime high, and that deliveries should be back to normal some time in 1991.

Airbus is also taking unusually calmly the publicly announced plans of Indian Airlines, following a crash, to dump its existing fleet of A320s. The crash, it seems from initial investigations, was caused by pilot error. But quiet sniping from U.S. sources hints that the complexity of the so-called fly-by-wire cockpit system of the A320 might have contributed. (In a fly-by-wire system the pilots control the aircraft via computers, instead of directly through pulleys and wires that actuate hydraulic rams on the aircraft's control surfaces on the wings and tail plane.) Boeing has chosen a different version of this technology for its new 777.

The Airbus fly-by-wire cockpit is an example of Airbus' willingness to push the latest technology further than its U.S. rivals. This willingness has also produced a new modular assembly technique, which Airbus claims is more efficient. It is to be used to build two new related planes, the twin-engine A330 and the four-engine A340, on a common assembly line, where most of the detailed work will be done in a dock, with the aircraft stationary. This breaks with the conventional Henry Ford-like system, where the aircraft moves down the line at each stage of assembly.

The major plane components—the wings, fuselage sections and tail surfaces—are made in the partners' factories and shipped by air to Toulouse. In a much more automated process than is common today, the major elements of the aircraft will be bolted together into a plane that can be moved on its own wheels, though without engines. The plane will then proceed to a nearby bay, where it will stay until all system tests and the remaining structural assembly have been completed. The workers will

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move to the plane, rather than the other way around. And they will work on either type, interchangeably.

This innovative process has three key results: It cuts the assembly cycle time by about 20%; it increases manufacturing flexibility; and, finally, as a consequence cuts the cost of the final aircraft. The new assembly line, for instance, allows changes much later in production—between the two types of aircraft, the A330 and A340, as well as between the widely different interiors required by different airlines—than on a conventional line. "We are not Boeing. They are so big they can resist airline pressure for late changes. We cannot," says Claude Terrazzoni, executive vice president of Aérospatiale, which spearheaded the new manufacturing technique.

The next major step, Pierson says, will be to change the corporate structure, to make Airbus more like a normal company better able to attract private investment capital on its own. It was born, for instance, as a peculiar French creation, called a Groupement Intérêt Economique, which has insulated it from normal requirements such as publishing any kind of financial statements. There are problems converting it to a normal public limited company, though, explains Pierson, however attractive that might be in theory. Airbus itself owns none of the assets, the factories or the machine tools used to produce its planes. They belong to the partners and, in many cases, are not used exclusively for the Airbus program.

One possibility, however, might eventually be to issue stock in Airbus, with a majority going to the partners according to their share of the program. The remainder could be sold, to workers and on the market. Pierson thinks that would open Airbus accounts to greater scrutiny and that it could lead to much more open—and competitive—bidding for work between the partners, instead of the work allocation that now occurs.

Would Airbus stock be a good investment? Much, of course, depends on the price, but it has its potential appeal. A massive market for civilian airliners exists. Airbus has technology as good as its American rivals' and is being run by a new generation of combative bosses. Typical is Richard Evans, 48, chief executive of partner British Aerospace, who says: "Airbus is going to attack the Americans, including Boeing, until they bleed and scream. And we are going to make a lot of money in the process." Its executives wouldn't have talked that way a half-decade ago. ■

As many of the leveraged buyout deals put together by financiers are hitting the walls, a deal put together by managers is hitting new levels of prosperity.

A buyout that worked

By James Cook

JOSEPH NEUBAUER, who in late 1984 led the insider buyout of what is now Philadelphia's ARA Group, Inc., works alongside some demanding employees. "One manager who just bought into the company came up to me a while back," relates Neubauer, "and he pointed a finger right at me and said, 'Mr. Neubauer, you better not screw it up.' "

The admonition is both an indicator of why ARA is so successful and a reminder of how far the company has come in five years. When Neubauer and 61 other managers closed the buyout in December 1984, ARA had bought in its 12 million outstanding shares for $917 million in cash. The recapitalized company's debt came to a breathtaking $1.2 billion, teetering on a $100 million pinpoint of equity.

But there was hidden stability, too. Primary in this regard was the desire to succeed brought to their jobs by ARA's new manager-owners. Says Neubauer, now 48, who had been head of a division of PepsiCo's Wilson Sporting Goods before he joined ARA in 1979 as chief financial officer: "This wasn't a conventional LBO. We didn't want to trade public ownership for financial ownership. This was a management buyout."

And so it was. Altogether, 75% of the equity came from outside the company, from institutional investors and from interested suppliers like soft drink companies. But no individual outsider got more than 6% of the stock. The largest block went to various company insiders—to members of ARA's 62-man Executive Corps (which got 18% of the equity) and to the 10,000 participants in its employee retirement benefit plan (7%). So, from the start, 25% of the equity was

Sarah Leen/Matrix

ARA's Joseph Neubauer with a baker at an ARA cafeteria in Philadelphia
"Mr. Neubauer, you better not screw it up."

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held inside the company, in contrast to RJR Nabisco and other 1980s-era Wall Street deals in which outside financiers took the lion's share of the action, spread a few equity crumbs among the company's managers, and walked off with enormous fees and profits.

It also helped matters that ARA's businesses are more stable than most. From its mixture of food services (60% of sales), uniform and linen rental (14%), nursing homes and child care (17%), and magazine and book distribution (9%), ARA could predict its prospective cash flow fairly accurately. Thus, despite an increase of roughly $100 million in its interest charges as a result of the buyout, ARA stayed in the black from the very beginning. So accurate were the cash flow projections, in fact, that within two years Neubauer was able to reduce ARA's debt by $200 million—without sacrificing its capital program or selling off any of its core operations.

"We did not want to dismember the company," Neubauer says, "and we didn't have to." Neubauer did, however, remove some gangrene. He sold a trucking business, for example, which was losing $20 million a year. But that would have gone anyway.

He also cut the number of nursing homes by 20% in five years. "We've been trimming around the edges," Neubauer says. "We can reduce volume and improve profitability by getting rid of marginal assets."

As ARA's operating margins began to rise (they have widened from 8.6% to 10.6% today), Neubauer concluded that ARA had better things to do with its financial resources than reducing its debt. He began borrowing again in order to expand the company. In two years he laid out nearly $400 million on a half-dozen major acquisitions to strengthen its basic food service, linen rental and day care businesses.

At the same time, Neubauer accelerated ARA's growth by taking over businesses its new customers had previously operated themselves—a $16 million food service contract with the University of Virginia, for example, and a $24 million contract to feed 105,000 schoolchildren in the Duval County, Fla. school system.

As the acquisitions began to pay off, the debt underlying the company became more and more manageable. Total debt still runs around $1.2 billion, as it did when the buyout took place, but sales will hit $4.5 billion this fiscal year, while earnings before interest and taxes will go from $150 million to $250 million.

"We're doing $1 billion more business and earning $100 million more than we did the day we took the company private, and we've done that on the same asset base; that's what our strategy is all about," says Neubauer, adding: "High debt levels are not what cause corporate problems. It's how you manage the debt and the business, and the ability to control and live with debt is something we worked on very, very hard."

Determined to share ARA's values with the people who were actually creating those values, Neubauer in 1988 bought back 50% of the stock held by outsiders; they were paid $265 for shares that cost them $55 two years earlier. With the repurchased equity, he began widening the base of managers eligible for ownership from an original 62 to over 300 in 1987 and nearly 900 this year.

Ara Services

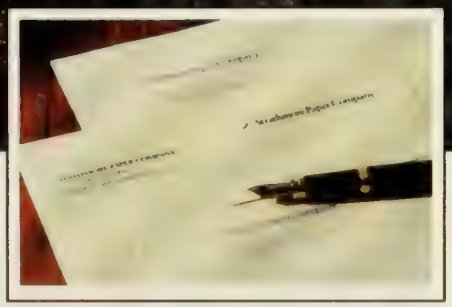
ARA distribution
Cash flow stability.

As inside stockholders retire or leave the company, ARA buys them out at a price set by outside appraisers. Last year that came to $18.50 a share on average, this year to $22.50. Not bad for stock that cost the original investors $3.50 a share. Neubauer owns over 11% of ARA's stock; at last appraisal, that was worth nearly $35 million.

Is Neubauer planning to take the company public again? He vigorously denies it, insisting that the company has nothing to gain from tapping new public owners. ARA has no trouble borrowing money, as it demonstrated in April with a $125 million debenture offering. Moreover, Neubauer figures ARA can cultivate its opportunities better in private.

Which, after all, is why Neubauer engineered the buyout in the first place. "A former ARA chief executive made a run at us," he says, "and though he eventually went away, our stock was no longer in very safe hands, so we decided to take the company private."

The situation today could not be more different. "Inside the company," says Neubauer, "we now own two-thirds of the stock and over 92% of the voting control, so we are indeed masters of our destiny." ■



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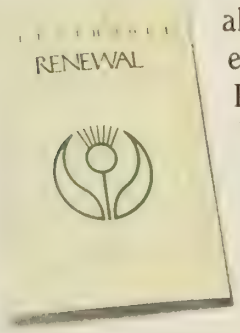

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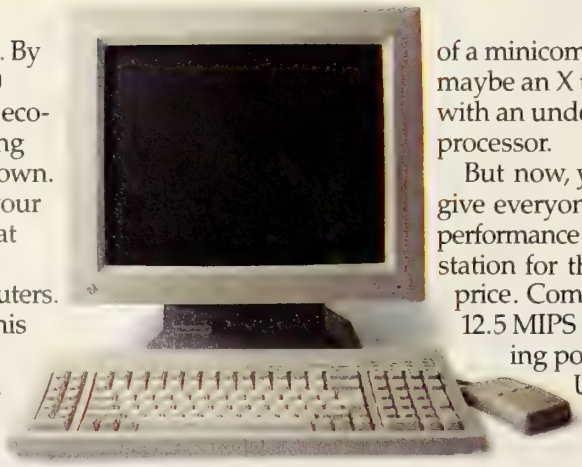

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Niches

How John Everhart combined his love of golf with his experience in the direct mail insurance business to hit a hole in one.

The best of both possible worlds

Charles Thatcher

John Everhart of the National Hole in One Association
"I'm just an insurance guy who likes to play golf."

By Rita Koselka

DON'T READ THIS STORY if you're an avid golfer who also happens to be a smart businessman with lots of opportunistic ideas: It'll make you mad. Or at least a little envious.

The reason is that John Everhart, 52, an avid golfer who also happens to be a very savvy Dallas insurance executive, has come up with a double-eagle idea to make lots of money out of something every duffer dreams about: making a hole in one.

Exploiting direct mail marketing techniques he'd learned creating a successful Dallas insurance agency that specializes in niche insurance, Everhart has built a thriving—and profitable—business insuring sponsors of hole-in-one prizes won by players at tournaments at local country clubs and larger fundraising events.

It works like this: Not many tournament sponsors can afford to give away a $50,000 Mercedes or an $8,500 Rolex every time some lucky thrasher connects on an extremely unlikely shot. So Everhart charges the sponsor or organizer a premium of between 2% and 5% of the prize value.

On, say, a $40,000 car, that's about $1,600. Since the odds of a hole in one happening are pretty low—about 1 in 12,600—Everhart and his underwriter rarely have to pay out. The result is that over the last eight years, of about $18 million in premiums he's collected, only $8 million has been paid out in claims. Not bad.

Everhart's success is a classic case of applying a sort of keen-grasp-of-

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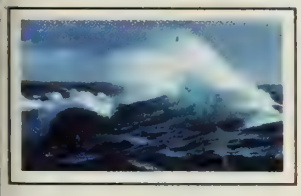

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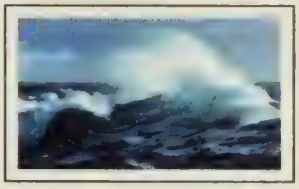

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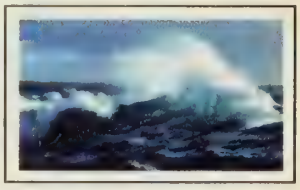

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the-obvious solution to a broad need. More importantly, he did it on a shoestring, with simple common sense. Buying some mailing lists. Setting up an 800-number. Offering payment by credit card. And using nothing more exotic than a Compaq computer with a special program he designed. By plugging in things like the length of the hole, the number and ability of the golfers and the value of the prize, Everhart can give sponsors an instant quote on what their premium will be.

It all began in 1981, when Everhart was asked to work on the Men's Golf Association's Florida Scramble tournament for Brookhaven, his local country club. The tournament organizers wanted to offer large prizes for any holes-in-one shot on the par-three 5th hole. But Everhart couldn't find a sponsor willing to lose something as valuable as a $20,000 car. To placate potential sponsors, he tried to insure the prize. But the only insurance he could find was through Lloyd's of London at about 10% of the prize's value, or through a shifty-looking stockbroker willing to self-insure it for less. Neither option was appealing, but he gambled on the second. Luckily, no one had an ace that day.

Chi Chi Rodriguez, recent winner of a Mercedes Hole in One prize
Making money on golf's perfect shot.

This year his National Hole in One Association, part of J.P. Everhart & Co., will insure 15,000 tournaments. Recently he chipped out $108,000 for a custom Mercedes won at Las Vegas Indian Wells Country Club by Chi Chi Rodriguez, a player on the Professional Golf Association Senior Tour (Rodriguez later donated the money to a children's charity). Even with such payouts, the business is lucrative. Everhart doesn't like to talk numbers, but FORBES estimates his earnings are about $1 million, or some 20% of his $5 million in revenues.

Everhart is already diversifying. Through direct mail, he sells golf merchandise, tournament planning and the National Hole In One Association, a club of sorts where an ace shooter can register and swap hole-hitting tales through a newsletter. He's even selling rain insurance. The Junior League of Shreveport, La. recently arranged through Everhart to insure their annual fundraiser for $25,000. There was a $1,700 premium. And a deductible—1 inch of rain per 12 hours. It didn't rain.

Everhart's timing couldn't be better, given the exploding popularity of golf. There are over 13,000 golf courses, and the National Golf Foundation says the number of people who play golf has almost doubled during the decade, to 25 million. While many of them aren't serious golfers, they are still eager to get out in fundraising or social tournaments. And many luxury-product companies are eager to get their well-heeled attention by sponsoring prizes.

Everhart doesn't self-insure, but buys the prize insurance from Aetna, charging them a commission. Robert Ebersold, the Hartford-based Aetna assistant vice president who got the company involved in the golf program and is an avid golfer himself, says, "We felt fortunate that we met John's requirements." He adds, "We've been tickled pink with the way it's going."

Everhart's parents had their own insurance agency, first in New York and later in Florida. After spending three years at the University of Florida, Everhart joined the family business in 1959, but his plans took a dogleg when his parents divorced two years later. Unwilling to take sides in their battle for the business, Everhart decided to leave Florida and move to Dallas, a major U.S. center for insurance companies. Within a few weeks Everhart got a job with Aetna in their commercial risk business. He spent seven years learning the business and making local contacts, and he earned his Chartered Property & Casualty Underwriter designation before going off to form his own agency on April Fools' Day, 1970.

After several years of scraping by doing standard life and auto insurance, Everhart spotted a unique and overlooked opportunity. In 1975 the state of Texas was raising the amount of the bond notary publics had to post with the state. That bond, which protected the state from any malfeasance, was provided by buying insurance, and its cost would be rising as well. It was a measly $10 at that time and is now a still less-than-lofty $50.

Everhart sensed opportunity. He knew this was nothing more than nuisance business for a big insurance company but that it could mean a lot to him. By buying a list of all the Dallas County notary publics from

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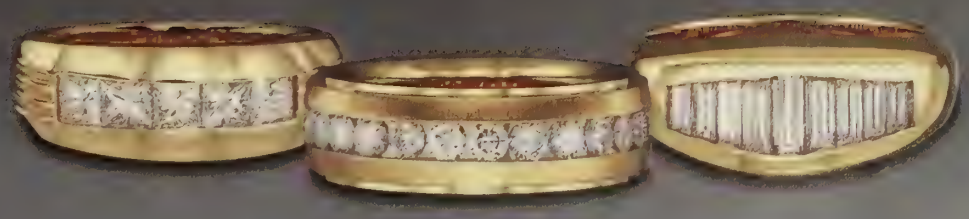

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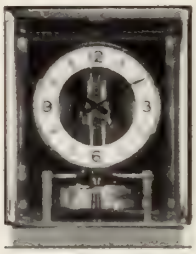

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the county, he could directly target his efforts.

Everhart went over to his old friends at Aetna, where he negotiated a 50% commission instead of the usual 30%. Next he sent out his letters, 35,000 in all. He received orders from 4,200 notary publics, an overwhelming 12% response rate. By the end of the following year he had bought an early Digital Equipment PDP-8 for what seemed an exorbitant $20,000 to automate the process. He now has 50,000 notary publics as his customers and has added merchandise—such as the stamps and record books—to his direct mail order form.

He followed a similar process with bonds for Texas used car salesmen also required by the state, later for hole-in-one insurance and more recently with insurance for jet skis.

The most common prizes are cars and jewelry, but Everhart has also insured a stallion, a crop duster and a bulldozer.

For the golf insurance he was able to buy the 1982 list of all the 12,000 golf courses from the National Golf Foundation. In his mailings he suggests hole-in-one prizes as a way to generate more excitement at their local tournaments, heart-stopping as they already are. The most common prizes are cars and jewelry, but Everhart has also insured an Arabian stallion, a crop-duster airplane and a bulldozer.

Clearly, prize or tournament sponsors such as Nissan's Infiniti car division like the demographics of golfers. The company's early ads didn't show the car at all, just "rocks and wind," says Jeff Harris, Infiniti's regional marketing manager. "We needed to get people to see the car." Harris has sponsored about 50 tournaments so far this year and buys most of his insurance from Everhart. Infiniti pays about $5 to $6 a head premium per tournament player, or about as much as some direct mail pieces. "And we put a car right out on the golf course, where they can climb all over it if they want," Harris says.

Others have already caught on to Everhart's success. At least two other insurance companies—Chubb & Son and Firemans Fund—and their brokers now offer hole-in-one insurance. But Everhart seems to have maintained his lead. And he clearly enjoys what he's doing. "I'm just an insurance guy who likes to play golf," he says. "It's the best of both." ■

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Lessons

Lindal Cedar Homes got in trouble by getting into areas where it didn't have experience. Now it's back on track.

The dangers of diversifying

Robert Evans

The Lindal family on deck
"Dad wanted us all in the business and to grow with it."

By Richard Phalon

It's one of the oldest lessons in the building trade: Not everything that looks good on paper necessarily squares into true lines and tight joints. Seattle's Lindal family learned the lesson, but only after considerable pain.

The Lindals run Seattle-based Lindal Cedar Homes (1989 revenues, $50 million) and own some 60% of the public company's stock. Starting with founder and chairman Sir Walter—the "Sir" is an Anglicized version of "Skuly," his Icelandic first name—the family has been in the pre-cut housing business for almost 50 years.

Until fairly recently Lindal was a classic small company success story. It continued to move steadily upmarket from the modest log-cabin-type vacation homes of its post-World War II origins to beautifully crafted, premium-priced primary homes; these now account for about 75% of gross revenues. All the while, family members were trained and integrated into all phases of the business.

Thanks to shrewd marketing and a carefully cultivated dealer base, sales more than tripled between 1983 and 1987, to $39 million, while net income climbed to over $2 million from a barely break-even $190,000. During the same period return on equity moved to 28% from 7%. Lindal common, hard-hit like most over-the-counter stocks in the 1983-84 market break, climbed to 8⅝ from a low of ⅝.

But two years ago things began to fall apart. Two 1986 diversifications that had looked great on paper—making hardwood floors and pine window frames—turned out to be disasters. A lack of management experience in the new businesses and some industry price-cutting combined to send profits tumbling.

The Lindals realized they were in over their heads and cut back the moneylosing operations—but not before the stock had fallen to 4. The trauma lasted less than two years, "but it seemed like forever," says Robert Lindal, 42, a structural engineer who took over as chief executive nine years ago after stints as a distributor, production manager and general manager. "With 60% of the company, we were feeling a lot of pain."

That the Lindals faced up to their mistakes and moved forcefully to correct them is a reflection of the hands-on management style of Walter Lindal, now 71, and his four children (three sons and a daughter), all of whom began working for the company during high school summer vaca-

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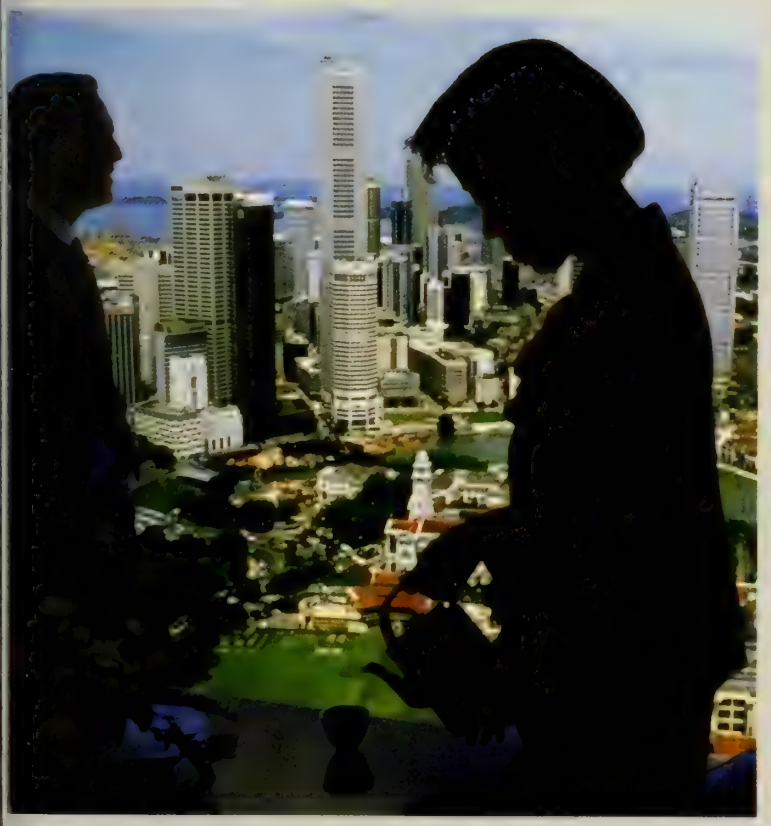

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tions. "Dad wanted us all in the business, and he wanted us to grow with it," says son Robert. His father spends much of his time on the vital business of recruiting dealers.

That blueprint of heavy family involvement had been taking shape ever since Walter got out of the Canadian army in 1945. An ordnance specialist, he spent most of the war years in the U.S. and Canada testing captured enemy weapons. Among other things, the travel gave Lindal a chance to check out army prefabrication building methods—broadening experience he'd gained earlier working for an uncle in the lumber business.

Postwar, Lindal set up shop on his own in Toronto, studied architecture at the University of Ottawa part time, and got one of his first lessons in the perversities of marketing. "Dad always jokes that Toronto was the worst place in the world for anyone who wanted to get started in prefab frame housing," says Robert. "The houses are all brick."

A Lindal Cedar home
Not modest log cabins anymore.

There was another problem: Lindal couldn't get enough of the right grades of cedar he needed in Toronto at favorable prices; and transportation costs limited what had now become a bustling four-plant business to a shipping radius of around 300 miles. Beyond that radius, shipping costs priced Lindal out of the market.

In 1962 Lindal solved both problems in one stroke, says son Robert, "by putting the kids in the Cadillac and driving cross-country to Vancouver." There was red cedar in abundance, a sawmill to be built on Lindal's expanding asset base, and lower-cost long-haul freight advantages to be capitalized on.

The company moved to Seattle in 1966 to get closer to bustling U.S. markets, and went public in 1971. Shortly thereafter it started moving its product line upscale, to prefabricated houses from cabins. The kids started coming into the company full time: Robert (operations), Douglas (sales), Bonnie (marketing), Martin (administration). "We all gravitated in the direction of our own interests," says Robert Lindal.

Any M.B.A. worth his casebook would probably have endorsed the twin diversification moves the Lindal board (five family members, five outsiders) approved in late 1986. One was a decision to produce oak and maple flooring—for Lindal's home packages and for sale in the outside market. "We had a vacant plant, we had some equipment, we had the kilns," says Robert Lindal. "Hardwood had good margins in it. It looked like a good way to build volume with comparatively little investment."

Much the same rationale was behind the second decision: to expand into pine and fir window frames and pre-hung doors through the 1986 acquisition of WindowVisions, Inc. for about $1.3 million. The company had been making frames for Lindal, so the objective was "to get control of the supply and at the same time expand the market," says Lindal. He adds: "It looked like a good fit. They never made any money, but they usually broke even, so we bought it for book value. We figured we could put our volume and theirs together, grow it, and make money."

But soon losses began to pile up in flooring, when industry capacity multiplied and prices dropped into the basement. Losses piled up in windows and doors, too, as the Lindals were drawn into a market they didn't have the experience to manage.

So a company that earned 85 cents a share in 1987 netted 66 cents a share in 1988 and only 37 cents last year. After writeoffs of better than $400,000 in each of the last two years, Robert Lindal says, "all of the bad news we can see is out of the way."

The hardwood business is now gone—shut down in January, equipment and inventory liquidated at a loss. Since May 1989 the window business has been shrunk to about one-quarter of its original size, with the output once again ticketed mainly to Lindal's own home packages.

Lindal common is back up at around 8; at that price, the family's holdings are worth around $12 million. The rebound appears to be recognition of the Lindals' refocusing and the continuing growth of the company's core housing business.

All of which goes to show that "logical" diversification might not always be the best course. For the Lindals, it certainly wasn't. Says Robert Lindal: "We've got to stick to doing what we know best." ■

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Edited by Laura Saunders

Can you depreciate a recipe for pizza crust? Corporate acquisitors are attempting just such writeoffs. The Internal Revenue Service is not amused.

A little too creative

CALL IT THE dumbbell deduction. According to the Internal Revenue Service, one unidentified media firm is taking tax deductions for the fact that its competition isn't very smart. Another is claiming deductions because its market is shrinking, and still another because its market is growing but is going to level off. Other firms are deducting such things as a pizza crust recipe and the business advantage of having a nonunion work force.

Unhappily for the tax collector, courts are upholding a lot of the deductions. "In both dollars and cases, this is one of our biggest issues," says IRS Chief Counsel Abraham (Hap) Shashy.

The issue here is what Shashy calls "creative intangibles." Currently the IRS is trying to disallow nearly $9 billion of deductions taken by hundreds of companies that are amortizing—gradually writing off—intangible assets. Some of these writeoffs are legitimate. The IRS, for example, would not challenge a deduction for a patent or a copyright. But a pizza recipe?

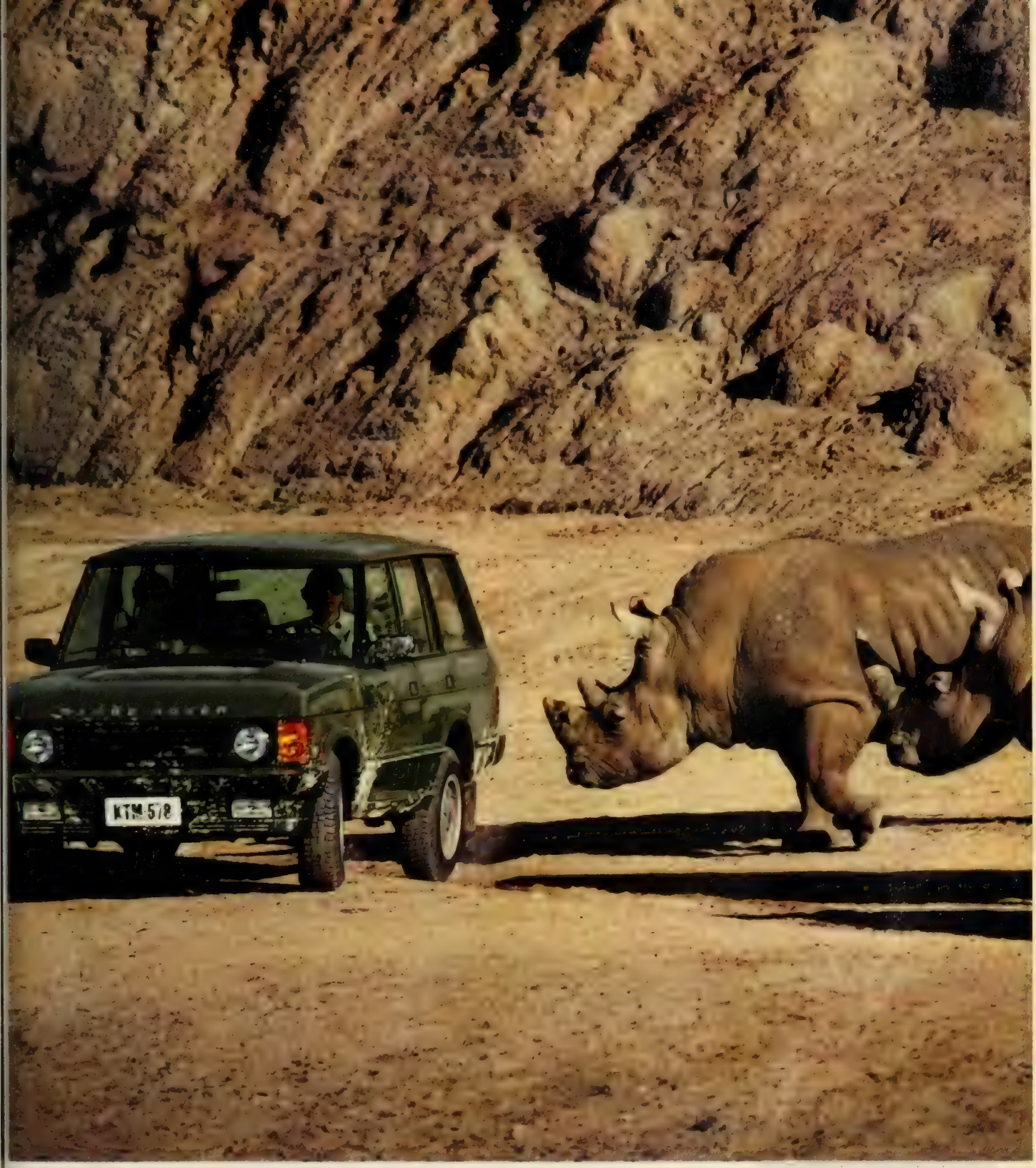
Imaginative deductions for intangibles tend to arise when one company buys another. That's because the original owner of an intangible asset, by and large, has nothing to amortize. Any costs it incurred in creating the asset were immediately expensed. That is, it has already written off the labor costs of creating a new formula for pizza dough, strengthening a baseball team or building up a customer base.

The trouble comes when a new owner buys the pizza company or ball club or whatever. In buying the company, the acquisitor obviously was buying the recipe as much as it was buying the pizza ovens and restaurant leases. The new owner wants to assign some of the purchase price to intangible assets that have limited life spans. Then, it writes off that part of the purchase price over the life of the asset. The IRS would prefer that any part of the purchase price that cannot be assigned to hard assets—factories, realty, machinery—be assigned to goodwill or going-concern value. Under U.S. tax law, these can never be written off, even when they are dwindling assets.

The situation is complicated by the blurring line these days between goodwill and other intangibles at a time when service businesses now dominate the economy. And some businesses have intangibles worth far more than their tangible assets. Look at New York Stock Exchange-listed United Asset Management, a Boston-based holding company for money management firms. When this company acquires smaller money management firms, it acquires next to no depreciable hard assets—perhaps a few desks and filing cabinets. What is it paying millions of dollars for, then? The IRS might like to believe that the acquired asset is pure goodwill. But United Asset says it's buying customer accounts, and, since customers are not forever, it amortizes them over several years. Without the tax deductions, the $15 million of net earnings the firm reported to shareholders could have been halved. That's because customer accounts likely would still have had to be rapidly amortized for shareholder reporting purposes.

Chas B Slackman

The rub is that there are no clear statutes defining intangibles, so the area is a wild and woolly frontier for taxpayers. To qualify, notes Lehman Brothers tax expert Robert Willens, an asset only has to have a definite value and a limited useful life that can be estimated fairly accurately. Some intangibles easily qualify: player contracts, below-market leases and mortgage servicing contracts. Then there are the outrageous ones. The dumbbell deduction was claimed by a



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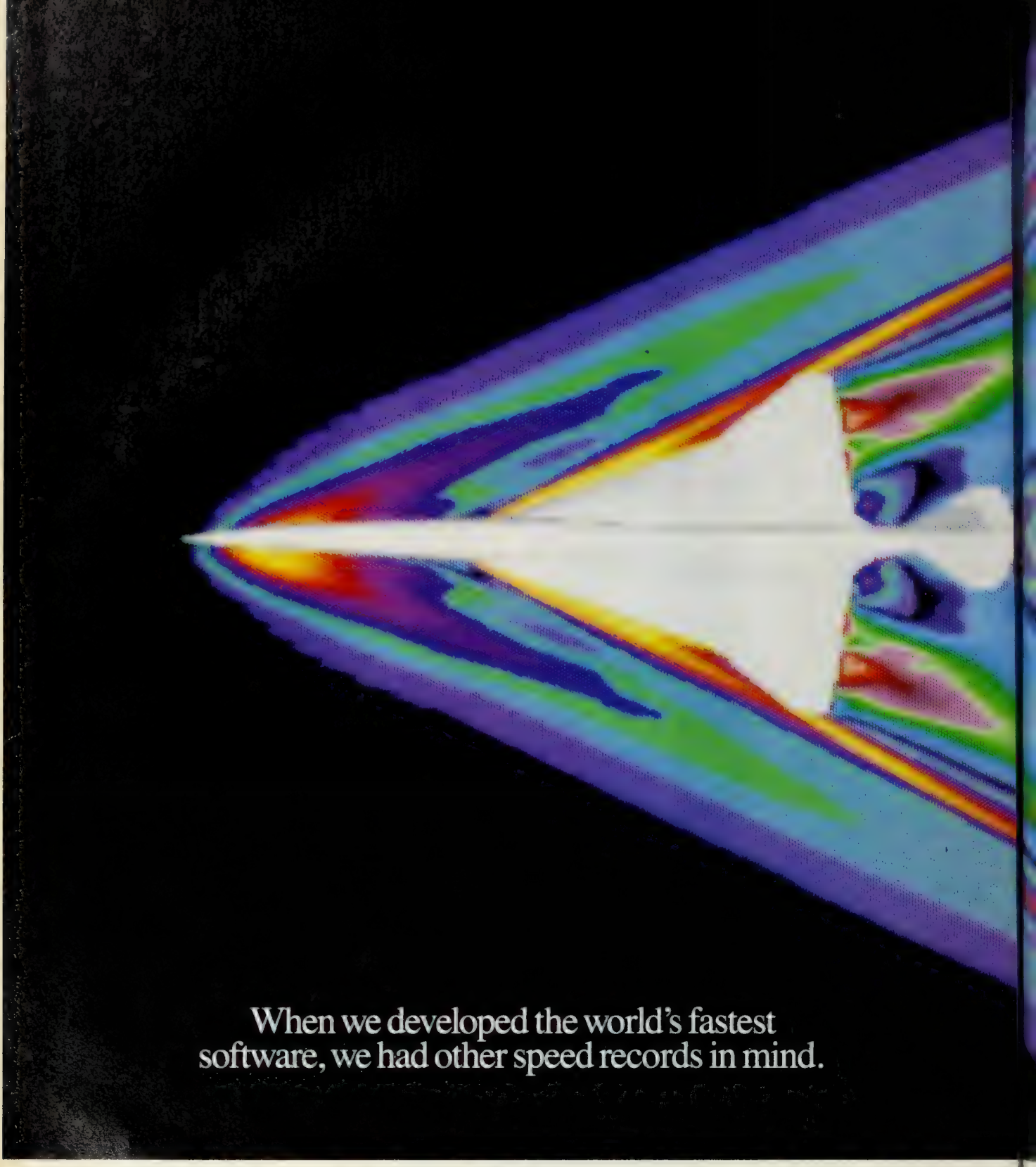

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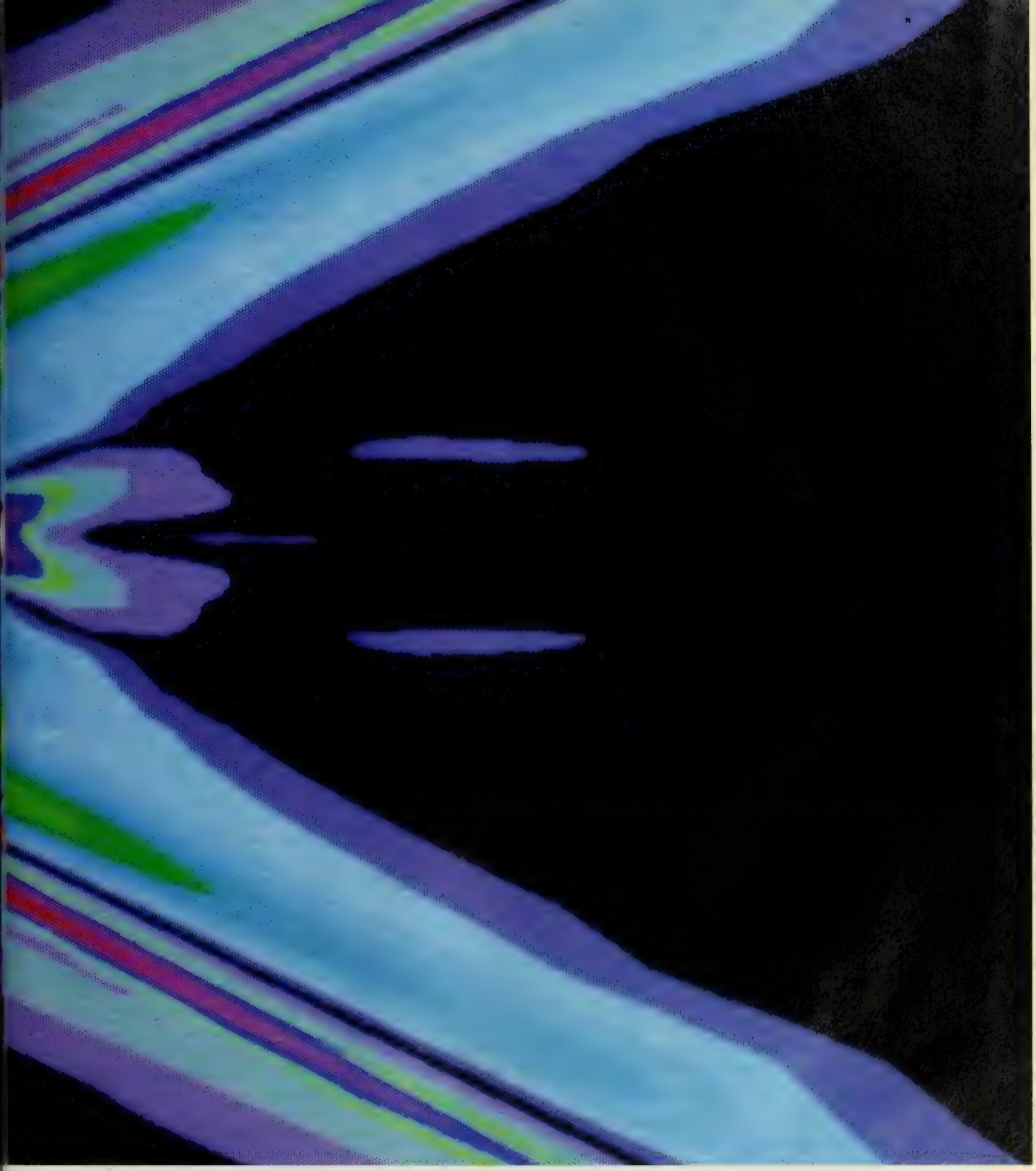

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broadcaster on the ground that its competition was too dumb to copy its own better format, but that in time it would. Similar arguments were used by the firms claiming assets based on both growing and declining markets and nonunion status.

For the IRS, intangible cases are a nightmare to litigate. Each turns largely on the facts, meaning that parties show up in court with wheelbarrows full of computer printouts and platoons of expensive expert witnesses. Even if the Service, outgunned and outspent, manages to win a case, it usually produces no useful precedent, notes Grant Thornton tax expert Thomas Ochsenschlager.

In fact, the IRS has a dismal record in court. It has lost half a dozen big intangibles cases, most prominently Citizens & Southern v. IRS (bank deposits) and Newark Morning Ledger Co. v. IRS (subscriber lists). An unfortunate result, according to Shashy, is that "the courts have practically provided a road map for how to get these deductions."

Congress could decree that the original owner of an intangible asset—say, the Discover card customer list—must capitalize the cost of developing the asset. That would mean Sears, Roebuck couldn't deduct all of its advertising costs immediately.

Is it good news for business that the courts are upholding their deductions against the IRS? Not necessarily. If it keeps losing in court, the Treasury will be tempted to lobby Congress for a "reform" in the next tax bill. Lawmakers, desperately seeking new revenue and usually happy to bash business, might pass a devastating new law, one that would wind up curtailing advertising deductions.

Here's what could happen. Congress buys the argument that all intangible assets should be treated as capital items, depreciable over their life spans. Pursuing this logic to its conclusion, Congress decrees that the original owner of the asset—say, the Discover card customer list—*must* capitalize the cost of developing the asset. That would mean that Sears, Roebuck could not deduct all of its advertising costs immediately. Such a dramatic shift in the tax law would cost businesses billions of dollars. Gaining the right to amortize intangibles could be a Pyrrhic victory indeed.—L.S.

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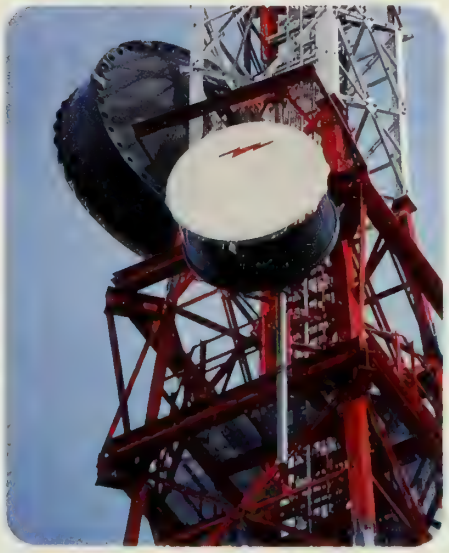

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Being a "value" investor à la Ben Graham isn't as easy as it sounds. You'll often miss out on some of the hottest action—as in this year's bull market.

"Don't bend the discipline"

By Thomas Jaffe

JUST ABOUT every money manager says he is looking for "undervalued" stocks, but only a minority of managers can truly be called value investors. These are the ones who buy shares of a company when its market valuation is discernibly lower than what the whole company could be sold for. They don't attempt to anticipate the mood of the market or predict which companies will become growth stars. They pay little or no attention to a stock's price history, nor do they follow trends: Being a value investor is tough in a market like 1990's, which to date has risen in the face of weak corporate earnings and historically high prices.

All a true value investor cares about is the value of a corporation as a going business. Is that value proportionately higher, by a comfortable margin, than what I pay to get a small piece of the company? If so, then I will buy that small piece.

This isn't the only way to go about choosing stocks, but it is a conservative and, over long periods, reliable way. If you want to know more about how to do it, listen to Scott Black, a young and very successful money manager in Boston. His portfolio at first blush appears more eclectic than disciplined, but look closer and you will see a coherence to it.

Under the name Delphi Management, Inc., Black, 43, runs $870 million for 23 clients. His clients are a loyal bunch, believing that Black's style of management will prevail over a long period, even though it has fallen behind lately. "It's painful right now to be a value investor," says Black. "Asset plays are in the doldrums. Last year we were up 23%; the S&P was up over 31%. That hurts."

Black himself isn't hurting. With management fees averaging about 0.8% and with next to no overhead, he's making something like $6 million a year. But there's no doubt that Black's portfolio—which includes a heavy weighting in conglomerates, media and energy—hasn't prospered in the current market. CDA Investment Technologies, which rates money managers by tracking their quarterly disclosures of stock positions, assigns a 15% average annual return to Delphi's U.S. stock picks over the five years ended Mar. 31. The S&P 500 was up an average 17.5%. But over the decade since Black opened his shop he has averaged a 21% return, 4 points ahead of the market.

How does a value investor build a consistent portfolio at a time when Ben Graham-type bargains are hard to find? Black has two measures of value: earnings and assets.

Black's earnings group includes

Susan Lapides

Scott Black of Delphi Management, Inc.
"A true value player has to set absolute boundaries and stick with them."

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companies selling for less than ten times what he estimates they will earn in 1990. In addition, they must have a return on equity of 15% or better, and more than keep their earnings up with inflation over a three-to-five-year period. This is where Loews, his largest holding, fits in. This tobacco and property/casualty company should earn $12 this year, yet it trades at 112¼. Other low-P/E stocks he likes are Salomon Brothers, Litton Industries, American Brands and Hafslund Nycomed, a Norwegian medical imaging company.

His second group are asset plays. Here Black applies different guidelines: He must be able to buy the company at a substantial discount to what he estimates its acquisition value to be. Earnings may not matter in this case; often an acquirer will redeploy assets, selling some and improving the returns on others.

Coca-Cola Enterprises, the bottling arm of Coca-Cola, fits in here. Coke bottlers are local monopolies and worth a large sum based on the size of their territories. If a corporate acquirer did pay attention to the profitability of these bottling plants, it would look not at their aftertax income but at their operating income—earnings before depreciation and amortization, interest and taxes. This particular company takes a large amortization charge, on paper, to write down its own acquisitions of bottling companies in recent years. But its operating income is large—about $600 million this year. Now compare that sum with the market value of Coca-Cola Enterprises' stock plus the debt that an acquirer would assume, or $3.7 billion. On this basis the company is valued at six times operating income, which is on the low side for a soft drink bottler.

Other stocks that Black thinks are cheap on an asset basis include Calmat, U.S. Cellular, Deutsche Bank, Crown Central Petroleum, Lafarge, U.S. West New Vector. Litton, already on his first list, is on the second list as well.

In recent years this second category—acquisition targets—has produced some of Black's biggest winners. He was an early buyer of such prominent takeover and restructuring targets as Federated Department Stores, RJR Nabisco, Levi Strauss, Payless Cashways and Ogilvy Group.

The takeover game has slowed, but it is a measure of Black's fondness for this kind of stock that he still holds dozens of them in his portfolio. Says Black: "You never know when value will be recognized." Indeed, half of the 115-odd stocks he now owns have been there since the bottom of the market in 1982. Say this for the man, he is nothing if not consistent.

Black has little patience for the many self-styled "value investors" who get carried away by the bidding on Wall Street and either bend the value rules out of all recognition or abandon them for something trendier. "People buy Wal-Mart at 26 times earnings and tell you it's a value relative to its growth rate," he says. "The same goes for other new Nifty Fifty types, like the Limited, Toys "R" Us, Waste Management and Browning-Ferris. Don't get me wrong. They're all nice companies. But when you have to pay 25 or 30 times earnings for them, that's ridiculous.

"I try to be opportunistic," Black continues, "but I don't like to bend the discipline. Times Mirror's stock may be down to 31⅞ [from a high of 45], but it will earn just $2.30 to $2.40 a share this year. That still makes for a 13 P/E. A true value player has to set absolute boundaries and stick with them come hell or high water."

If Toys "R" Us is too expensive at 28 times earnings, why are the cellular and cable sectors cheap when they aren't even earning money? Because, Black says, "you can buy companies for 40 or 50 cents on the dollar." He comes to this conclusion by the fol-

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What is value?

Money manager Scott Black defines value in two alternative ways: earning power and liquidation value. American Brands is trading for 10 times its expected 1990 earnings, Lafarge for half its breakup value.

Company/business	Recent price	1989 revenues ($mil)	1989 EPS	1990 EPS*	P/E based on 1990 EPS	Book value	Breakup value
Earning plays							
American Brands/tobacco, consumer prods	63¾	$11,921	$6.51	$7.00	9.1	$32	$97
Hafslund Nycomed/medical imaging	30⅜	464	2.19	2.50	12.2	11	45
Loews/tobacco, prop/casualty	112¼	11,437	12.07	12.00	9.4	64	145
Salomon/investment banking	24¼	8,999	3.26	3.50	6.9	25	40
Asset plays							
Calmat/cement	33¾	690	2.52	1.75	19.3	17	45
Coca-Cola Enterprises/beverage bottling	15¼	3,882	0.41	0.60	25.4	13	25
Crown Central Petrol Cl B†/oil ref & marketing	33⅜	1,403	2.21	2.75	12.1	31	81
Deutsche Bank/banking	478	6,232	28.15	32.50	14.7	189	718
Lafarge/cement	17⅛	1,497	1.98	1.90	9.0	16	34
Litton Industries/defense contracting	69⅞	5,023	7.05	7.30	9.6	55	125
US Cellular/cellular telephone svcs	26	33	–0.65	–0.40	NM	3	43
US West New Vector/cellular telephone svcs	32¾	190	–0.22	–0.20	NM	3	44

*Estimates. †B shares, nonvoting. NM: Not meaningful. *Source: Delphi Management, Inc*

lowing arithmetic. Forgetting earnings, he looks at what cellular systems bring when they are sold. By this method he values U.S. Cellular's potential urban and rural customers at $150 and $100 apiece, respectively. Minus the debt, he says, the company is worth $42 a share. Recent price: 28.

Another giveaway, he says, is American Television & Communications, a cable operator controlled by Time Warner Communications. Last summer, during the height of the Time-Warner-Paramount fracas, it rose to the low 50s, but it now trades in the mid-30s. Black values ATC at $2,250 per subscriber, subtracts debt and deferred tax liabilities and arrives at a breakup value of $78 a share.

Mention ATC's parent, however, and Black burns. "How can a management turn down $200 a share in cash from Paramount and tell the world they've got a plan to run their busi-

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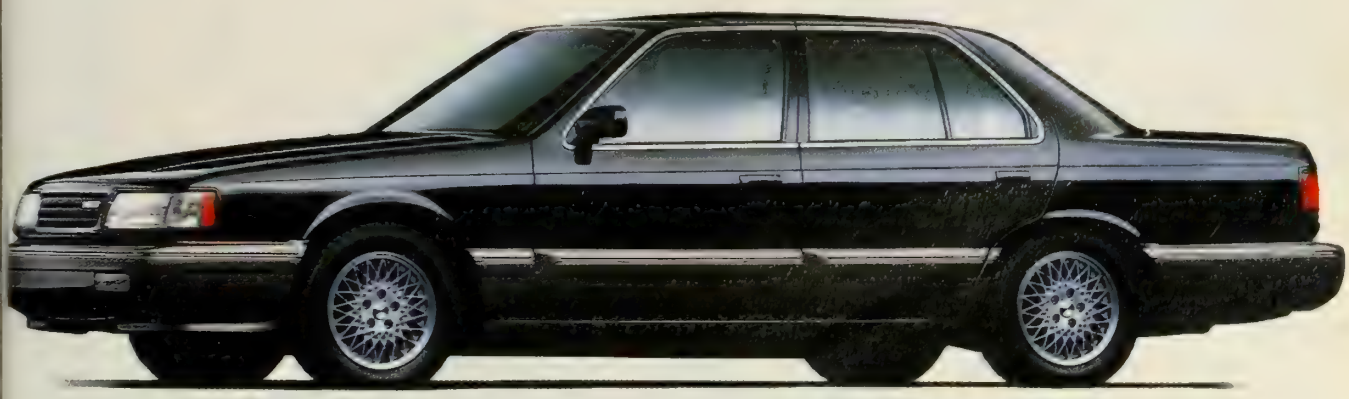

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ness better when the stock's still under 110? It's outrageous."

When does Black sell? "When it comes to companies with consistent earnings power, we'll normally consider it when a stock trades at a 30% premium to the market multiple," he says. "The exceptions are banks, insurance and tobacco companies, which always carry lower multiples. These days, it means that at 14 or 15 times [expected 1990] earnings, we'll review a stock, and if nothing's changed, we'll sell it."

Black, who majored in mathematics at Johns Hopkins University and graduated from the Harvard Business School in 1971, credits his ability to analyze companies to his business experience. From 1972 to 1975 he worked in finance at Xerox and Seagram Co., at Seagram helping to review takeover candidates.

Black later worked on internal diversification strategy at Merrill Lynch and on financial controls at Los Angeles-based William O'Neil, the statistical publishers. Black made $100,000 a year at O'Neil and used the money to start his money management service.

Thus to Black, a stock is not just a piece of paper, as it is to many technicians and speculators, but a proportionate interest in a business. If this approach to the marketplace makes sense to you, but you don't have the discipline to apply it, look for a fund manager who does. Delphi doesn't take accounts of less than $10 million, but there are several practitioners of value investing whom Black admires who run mutual funds. Mario Gabelli shares Black's fondness for cable and cellular companies and likes to put acquisition price tags on corporations, often by working from operating income. He runs the Gabelli Asset Fund as well as Gabelli Equity Trust, a closed-end that trades on the New York Stock Exchange.

Another value investor is Michael Price, who shares Black's tastes in asset plays like Lockheed. Price runs the Mutual Beacon Fund ($50,000 minimum); the better-known Mutual Shares funds are closed to new accounts. John Neff aims particularly for low-P/E stocks. His well-known Windsor Fund is closed to new investors, but you can get his closed-end Gemini II fund on the New York Stock Exchange for only 1% more than its net asset value.

But don't go for value investing if it makes you ill to lag in a market like 1990's. Value investing is for the long term. It is certainly not a method for all seasons. ■

Statistical Spotlight

Real estate is in trouble, and so are bank stocks. That creates bargains among the regionals. Here's a shopping list.

Tarring 'em all with the same brush

By Suzanne Loeffelholz

THOUGH BAD NEWS on banks makes the newspapers daily, could it be that regional bank stocks have bottomed? We put the question to James McDermott, 39, executive vice president and director of research at Keefe, Bruyette & Woods, Inc. He replied that he thinks some regional banks have already taken their medicine and are poised to come back with their local economies.

McDermott's firm tracks 165 commercial banks for institutional investors. He thinks there are bargains out there among banks that have already taken big writeoffs to cover potential losses and whose shares sell below book value. He doesn't expect the recovery of bank stocks, large or small, to be either immediate or smooth. The bullish case looks out two or three years. However, he thinks the gains could be good enough to justify patient holding.

Shirley Kaneda

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An eclectic list of regional banks

James McDermott has no simple formula for choosing bank stocks. A low P/E, a discount to book value and a loan-loss reserve larger than the total of nonperforming assets are all desirable. But you won't find all those virtues in one stock. Thus, the list includes some cheap weak banks and some expensive strong ones.

Company/headquarters	Recent price	Assets ($bil)	1989 EPS	1990 EPS*	P/E based on 1990 EPS*	Price/ book	Non-performing assets as % of loans	Loan-loss reserve as % of nonperforming loans
Affiliated Bankshares of CO/Denver	12⅛	$2.6	0.54	0.75	16.2	70	8.0%	66%
Constellation Bancorp/Elizabeth, NJ	14½	3.1	3.21	1.50	9.7	49	4.8	33
CoreStates Financial/Philadelphia	39⅝	22.2	5.03	5.05	7.9	150	1.3	112
First City Bancorp of Texas/Houston	31½	13.7	4.26	6.60	4.8	86	2.5	96
First Commerce Corp/New Orleans	19⅛	4.5	2.26	2.65	7.2	99	2.8	135
First Fidelity Bancorp/Newark, NJ	17⅞	30.2	2.51	0.90	19.9	75	3.1	74
First Interstate Bancorp/Los Angeles	39¼	57.4	–3.89	6.30	6.2	107	5.5	114
First Union Corp/Charlotte, NC	18¼	39.1	2.40	2.75	6.6	92	1.9	106
First Wachovia/Winston-Salem, NC	41⅝	23.9	3.82	4.15	10.0	162	0.6	242
Mercantile Bancorp/St. Louis	24¼	6.9	0.03	3.50	6.9	95	2.2	152
NBD Bancorp/Detroit	31⅜	25.7	3.46	3.80	8.3	132	0.9	205
Shawmut National/Boston	12½	24.9	–1.77	1.75	7.1	66	6.8	78
Summcorp/Fort Wayne, IN	15⅞	2.4	2.01	2.45	6.5	91	2.1	74
SunTrust Banks/Atlanta	20¼	30.9	2.61	2.80	7.2	121	1.9	108
United Banks of CO/Denver	18¼	5.9	1.04	1.15	15.9	69	5.7	33

*Estimate

Source: Keefe, Bruyette & Woods, Inc.

With that proviso for patience, McDermott puts CoreStates Financial, First Wachovia and NBD Bancorp on his recommended list of regionals. They all have strong capital bases—with total capital cushions well above the federally mandated 6% of assets—and reasonably sound loan portfolios. At Philadelphia-based CoreStates, nonperforming assets represent only 1.3% of loans, as compared with the average 3.3% among McDermott's picks. A recent acquisition by CoreStates of First Pennsylvania Corp. should eventually yield $90 million in annual cost savings.

McDermott also likes banks with weaker balance sheets, provided they are available at either a low multiple of earnings or a good discount to book. The objective here is to find a bank where new management has put most of the loan problems behind it and stands to profit from an improvement in the regional economy. "Bank stock investors make the most money anticipating regional economic changes," says McDermott. He believes the economies of New England, New Jersey and Pennsylvania are good bets for a recovery.

New Jersey's First Fidelity is a McDermott favorite. No sooner did First Fidelity merge with Pennsylvania's Fidelcor in 1988 than loan problems surfaced and management scattered. The new chief executive, Anthony Terracciano, helped turn around Mellon Bank. At the end of the second quarter he may add as much as $300 million to First Fidelity's loan-loss reserve, which now covers 74% of its nonperforming loans. Then he aims to cut costs through efficiencies not previously realized in the merger.

Shawmut National is based in Boston, a town that makes Wall Street wince. "We don't view Shawmut as out of the woods yet, but when the economy stabilizes, Shawmut should be among the first to emerge," says McDermott. Shawmut's nonperforming assets are 6.8% of total loans, and the provision for loan losses is only 78% of nonperforming loans. Unfortunately, about 50% of Shawmut's $19 billion of loans are in real estate, which continues to weaken in New England. Here's the value: Shawmut sells at 7.1 times estimated 1990 earnings and at a 34% discount to book value. Shawmut, McDermott thinks, is so cheap that investors should do well even if there's more bad news.

Summcorp, a smallish Indiana bank, goes on McDermott's list as a takeover candidate. One planned merger fell through in 1988, but another is possible. McDermott expects Summcorp's earnings to grow 22% this year, giving the bank a multiple under 7. A takeover would certainly be at a substantially higher P/E.

SunTrust Banks in Georgia was long priced on a par with the very cream of regional banks until it bought Third National in Tennessee, where problem real estate loans surfaced. A higher loan-loss provision in 1990 is likely, cutting earnings. Nonetheless, McDermott forecasts a net of $2.80 a share this year, giving the stock a 7.2 multiple. Wall Street is worried about a regulatory examination. McDermott thinks SunTrust will get a clean bill of health.

First Interstate Bancorp, which lost a lot of money last year, is undergoing a restructuring plan, and has sold $5 billion of weak assets. If management doesn't continue to improve its own operation, McDermott thinks another bank will do it for them.

First Interstate and Summcorp aren't the only regional bank stocks that could be takeover candidates. When the big, national banks get over their own hangovers—from lending too much to the Third World, leveraged buyouts and Donald Trump—they will be poised to resume the national integration of the banking industry. They will, McDermott thinks, go hunting for good regional banks.

Is it too early to bargain hunt among banks? After collapsing 15% in the first four months of 1990, regional bank stocks began a recovery that has since taken them toward year-end 1989 levels. Further bumpiness may lie ahead, but bargain hunters must expect some bumpiness. By the time the road has gotten smooth, the bargains have vanished. ■

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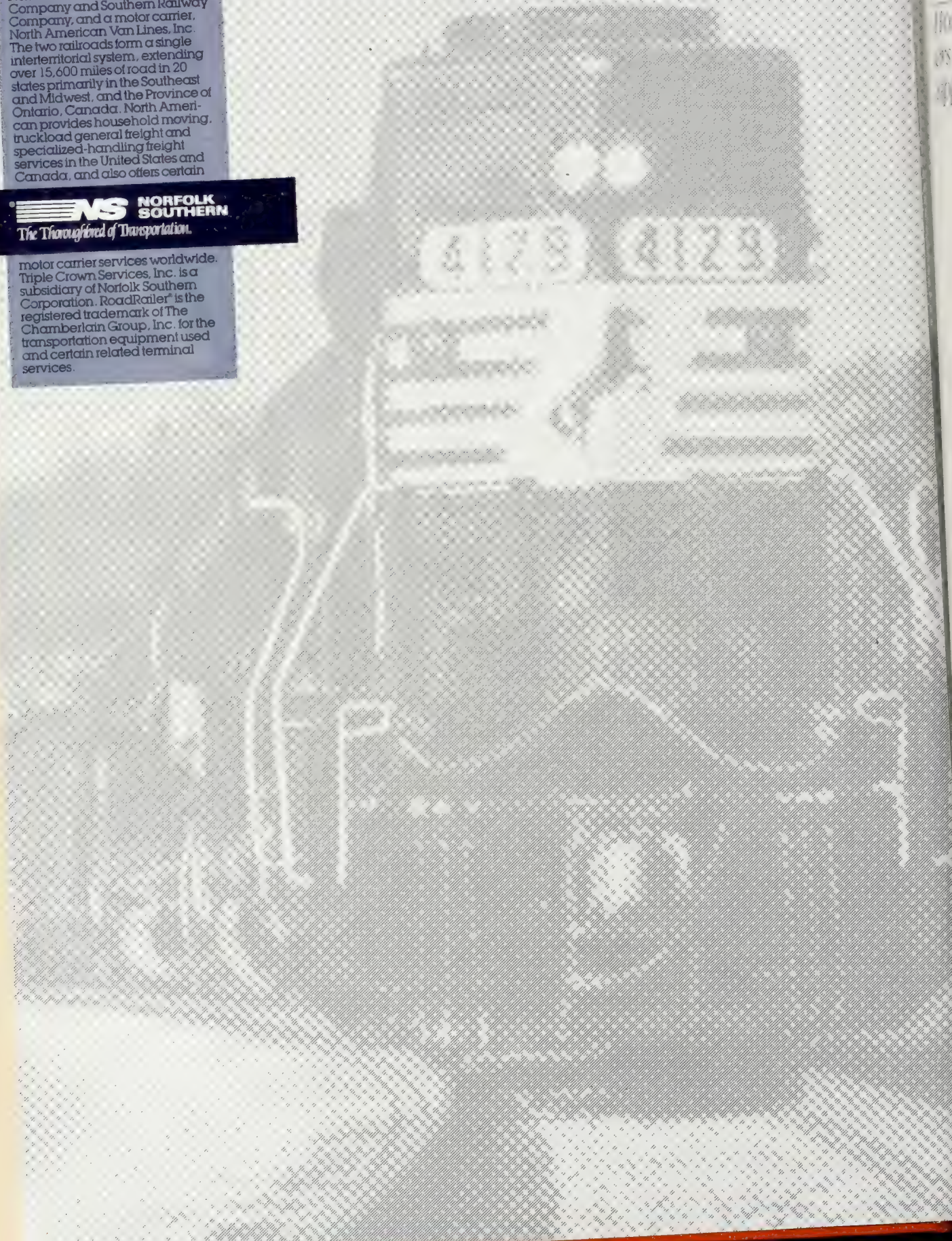


Marketing

Edited by Joshua Levine

How a sweaty, macho trademark for boxers was turned into a big seller in the apparel trade, creating a retail knockout.

Swimsuits, yes; perfumes, no

By Joel Millman

BACK IN 1917, a young fighter named Jack Dempsey stopped in to ask a favor of Jacob Golomb, a retailer and maker of men's bathing suits. The protective headgear Dempsey had been using for training wasn't holding up. Golomb's products had the reputation of outlasting everyone else's. Hence the name, Everlast. Could Golomb make Dempsey some training gear that would last longer than 15 rounds? Why not, said Golomb.

Dempsey went on to flatten Jess Willard in 1919 for the heavyweight title—wearing a pair of Everlast boxing gloves. Suddenly, Golomb had a new market for his distinctive concave logo, which wound up on the headgear, trunks and boxing gloves of a long line of champions, right down to Muhammad Ali, Joe Frazier and Mike Tyson.

Seven years ago the Everlast trademark starting appearing on swimsuits again. As well as on jogging suits, T shirts, pullovers, thermal underwear, mittens, scarves, tank tops and other sportswear.

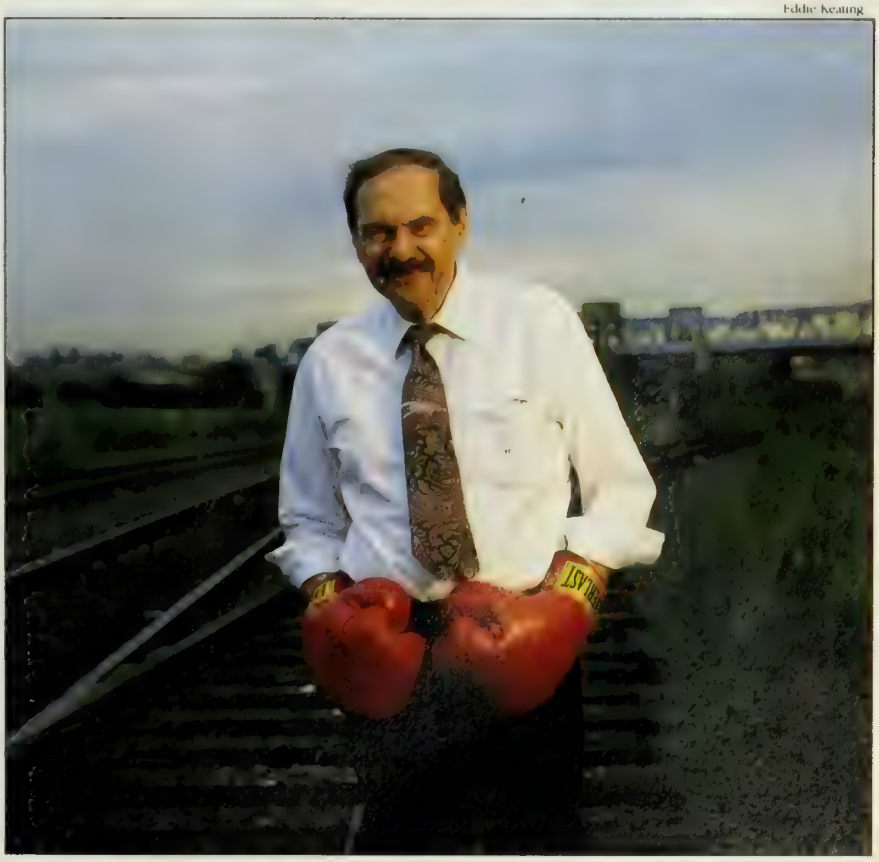
Based in New York's tough South Bronx, Everlast Sports Manufacturing Co. doesn't make swimsuits anymore. Or any of the other sportswear products now carrying its name. It just licenses the logo. But that logo, it turns out, packs a trademark wallop other marketers can only dream of. "Everlast is in a category by itself. It's an icon," says Peter Harleman, whose Landor Associates tracks trademark recognition for advertisers and consumer-oriented companies.

U.S.A. Classic Inc., Everlast's largest licensee, sold over $14 million worth of Everlast clothing in the last year and expects to clear $20 million in 1990. Nearly a dozen smaller licensees market things like swimwear, sports-equipment bags and sneakers. Together their sales should top $5 million this year. And Everlast is expanding overseas: New licensees will sell Everlast footwear in Finland, accessories in Mexico and children's apparel in Japan.

Everlast captures 6% of these sales without so much as lifting a glove. Since it began licensing, in 1983, it has earned at least $2 million in royalties. That may not look like much, but it's crucial to Everlast, which has seen its boxing equipment sales level off in recent years. The family-run company won't disclose figures, but sales of its core products are thought to be in the area of $20 million. Institutional sales to gyms and schools of equipment like punching bags, wrestling mats and vaulting horses have held up. Such sales make up a big chunk of the company's business.

With more than half of the estimated $10 million retail market in boxing products, Everlast's share has been an attractive target for bigger firms. Beset by competition from foreign copycat products, Everlast's traditional sales base—mom-and-pop sporting goods stores—has also been hurt by

Eddie Keating



Everlast Chairman Dan Golomb
"We never realized how attractive our name was."

the rise of big retail chains like Herman's World of Sporting Goods. These stores typically carry a broader range of competing products and often relegate boxing gear to the less prominent fitness departments.

The times are changing, too. Once, owning a pair of boxing gloves was as much a rite of American youth as owning a baseball mitt. Today boxing is often considered too brutal, and you're more likely to find a tennis racket in most boys' closets. "Our problems are the same as any small manufacturer in a changing market," says Everlast Chairman Dan Golomb, 69, the son of the founder. "We could never survive on boxing alone."

So licensing is helping the company grow. Riding the crest of the sports boom that's put the logos of baseball, football and basketball teams on everything from sweatshirts to beer mugs, Everlast's pull is its socko name—one that's not tied to a particular season or one team's success. Think Everlast and you think of washboard stomachs, sweat-matted hair, million-dollar purses—the grit and glory of the ring. But the closest most buyers of Everlast merchandise have gotten to a smoke-filled gym is a movie ticket to *Raging Bull.* These are the same sorts of folks who buy four-wheel-drive Jeeps to pick up the oat-bran muffins on a Sunday morning. Sort of macho by association.

They buy their Everlast sweats at stores like Bloomingdale's, Macy's and Nordstrom. "You'll never see Everlast apparel in a K mart or Ames," sniffs Joan Hansen, a consultant who oversees Everlast's licensing.

At first, Everlast didn't aim at the carriage trade—and stumbled badly. Its first licensee, a New York-based apparel maker named Gerson & Gerson, Inc., tried to sell shiny women's shorts and robes as a novelty item. To

A pretty girl, a moose, and some boxing gloves
Everlast gets a free ride on Madison Avenue.

Frederick Charles

U.S.A. Classic line on display at Macy's in New York City
The rag trade's toughest logo earns millions in license royalties.

If managing local affairs from afar worked, there might still be a British Empire.

King George III and a few of his royal descendants would probably agree, some things just can't be run from a distance. A lesson from the history books that applies to working with provider networks in any multistate managed care program.

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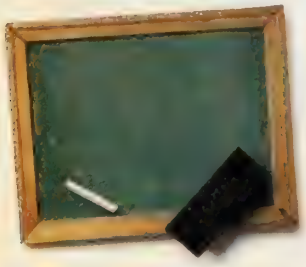

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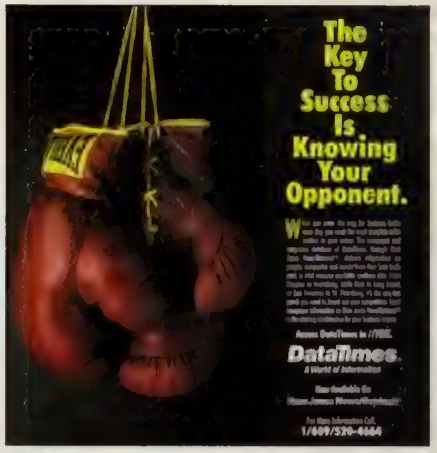
hawk the stuff, models in trunks, tank tops and gloves shadowboxed in department stores. To many shoppers, the soft-porn approach seemed only slightly more upscale than mud-wrestling. "We misread the image," concedes Matthew Gerson, president. The venture flopped the same year.

Everlast learned an important lesson: If you're selling macho by association, go light on the macho. Capitalize on the scrappy image without offending the target market with lurid images of boxing mayhem.

So Everlast's apparel ads take a low-key approach: The logo runs across two magazine pages with a line or two



Staying power
A scrappy appeal.

of punchy copy underneath. "To the generation that grew up believing in 'dress for success,' we remind you that there are times when it is perfectly acceptable to wear what you damn well please," reads one ad designed by Goldsmith/Jeffrey Agency.

Everlast's apparel line gets a lot more exposure than its modest $500,000 ad budget can buy. Whenever big-time boxers get their pictures in the press, it's usually not hard to spot the large Everlast logo on their gloves or trunks. And there are the ads run by other companies that feature the firm's products. Says trademark analyst Harleman, "Everlast gets enormous free play, just like Rolls-Royce and Tiffany."

Using the added visibility its licensing ventures have given it, Everlast is now expanding its own manufacturing efforts into a broad range of exercise and weight-lifting equipment for the home. Meanwhile, hardly a week goes by when Golomb doesn't get another request for a license. Everlast men's cologne and Everlast lingerie are among items he's recently rejected. "We never realized how attractive our name was," he says. "Now the goal is to keep it that way." ■

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The new skyline of Palmdale, Calif. from the Antelope Valley Freeway
Just seven years ago an outback on the edge of the Mojave Desert.

Chad Slattery

Regions/Palmdale

Why would anyone live on the edge of the San Andreas fault, commute four hours daily and endure summer temperatures that rarely dip below 100 degrees?

Trading free time for better housing

By Ellen Paris

MICHAEL LOVATTO, 28, a property controller at TRW in Redondo Beach, Calif., recently bought his first house. He paid an impressively low $85,000 for a new, two-bedroom, two-bath house with a large backyard, appliances, carpeting and central air-conditioning included. The same home would easily sell for $350,000 elsewhere in the Los Angeles area.

The catch is that Lovatto's new home is in Rosamond, Calif., some 88 miles north of Los Angeles in the high desert of the Antelope Valley. Rosamond is 1½ hours by car from TRW in Redondo Beach—if there is no traffic. Lovatto moved into his new house earlier this month. Even though he leaves home by 4:30 a.m. in his new Nissan Sentra and returns between 6:30 and 7:30 p.m., he faces a minimum four-hour commute each day.

"If you want to own a house in California today," he says, "you either have to have cash or the time to commute. I don't have the cash, but I've got the time." One needn't be an economist to see what Lovatto is doing: trading 20 hours a week for an extra bedroom and a nice backyard.

In southern California, where the median price of a house is around $200,000, many aspiring homeowners feel exactly the same way. In the last four years almost 85,000 people have fled to Antelope Valley—barely an outback at the edge of the Mojave Desert even seven years ago—in search of a comfortable home. More than 250,000 people now live in the valley, where summer temperatures often reach 100 degrees. It is 3,000 flat, sun-scorched, dusty-brown square miles of brush and scrub on the edge of the most dangerous earthquake fault line in the U.S. At least 80% of the new residents now commute more than 1 hour and 15 minutes each way on the already clogged Antelope Valley Freeway to jobs in metropolitan Los Angeles. What they lose in free time and suffer in aggravation they more than gain in housing comfort.

Ray Watt, chairman of Los Angeles-based Watt Enterprises, a large real estate developer, is building two projects with over 200 homes in the valley. He will soon break ground on California Springs, a 6,000-acre planned community that will have 21,000 homes. Estimated average price: $125,000 to $175,000.

Palmdale, home of Northrop's Stealth bomber, and nearby Lancaster

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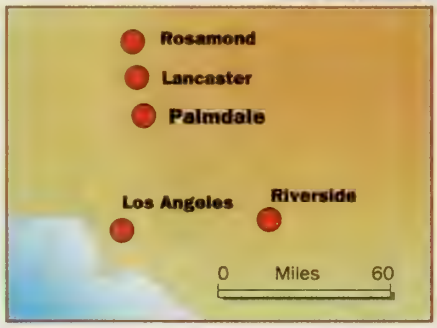
Photos by Chad Slattery

Lavella, Michael and Steven Lovatto and their new home (above). Directory, just off the Antelope Valley Freeway, of new homes for sale

"I don't have the cash, but I've got the time."

Robert Mansfield/Forbes



are the big population centers in the south valley. Palmdale's population has more than doubled in just the past four years to an estimated 56,600. In the same period Lancaster has jumped to 88,700 from 60,870.

Where there are Californians, there are malls. The first regional shopping mall will open in September in Palmdale, a sprawling, 744,000-square-foot complex with Sears and J.C. Penney as anchor tenants and 125 other retail establishments. About 80% of the space is already committed. California's first Wal-Mart will open in Lancaster in August.

With so many commuters, there is already a growing demand for jobs closer to home. When Skywest Airlines recently began flying from Palmdale to Los Angeles International Airport, it advertised that it had six job openings in Palmdale. It got 300 résumés. The area's skilled labor pool and cheap land are already drawing the next wave of development: light industrial and back-office jobs such as assembly operations and regional processing centers for insurance companies and banks.

Anderson-Barrows Metals Corp., which manufactures brass fittings for the plumbing industry, recently put up a 62,000-square-foot building in Palmdale. "Many of my employees had already moved to the area," says Chairman Dave Anderson. When the company opened its doors in Palmdale, there were ten positions open; 1,300 people applied.

Lockheed recently laid off 200 workers at its Palmdale plant, but there will be no net job loss. Lockheed is planning to move its supersecret "Skunkworks" operation to Palmdale from Burbank. "For the long term," says Lockheed spokesman Jim Ragsdale, "we expect to increase employment in the Antelope Valley and have more jobs there than now." Unless California's environmental fanatics get in the way, jobs and more business will undoubtedly follow the people to the area.

For how long will the Antelope Valley continue to offer cheap housing? Prices have begun creeping upward. About 2½ years ago a small improved lot in Palmdale sold for $25,000, compared with around $50,000 today. Between the end of 1988 and year-end 1989, home prices increased over 30%. Sales are so strong for homes priced under $140,000, that for real bargains you now have to drive 20 minutes north of Palmdale to Rosamond, where the Lovattos live, and even a bit beyond. Kaufman & Broad, the California home builder, is selling homes in Rosamond from $88,000 to $115,000. These are scarcely mansions, ranging from 950 square feet to 1,531, but that's cheap by California standards.

Cheap enough to persuade people like first-time homeowners Maureen and Duane McCorkle to put up with Duane's excruciating commute of 140 miles round-trip to his job near Los Angeles International Airport. The McCorkles and their four children had been renting a two-bedroom, $700-a-month apartment in the crime-ridden beach city of Venice. They bought a four-bedroom house in Palmdale for $139,000. Monthly payments, $1,100. "I like the idea of a new, family-oriented community, and I want my kids to grow up in a safe environment," says Maureen.

In addition to first-time buyers like the McCorkles, the Antelope Valley is attracting previous homeowners who are indulging in a bit of property arbitrage. Take Donna and Tom Raden, who bought their 2,258-square-foot Palmdale house two years ago for $145,000. They financed it by selling a much smaller house in Saugus, about 40 miles south of Palmdale, for $163,000. "We wanted more house for the money, and we never could have afforded to buy a house like this anyplace else," says Donna.

Fortunately, despite its desert landscape, the Antelope Valley has an adequate water supply—mainly from groundwater and the State Water Project. Wallace Spinarski, general manager of the Antelope Valley/East Kern Water Agency, estimates the area has enough water for 800,000 to 1 million people.

Ten years ago anyone who made the barren and tedious drive to the edge of the Mojave would have found Antelope Valley a most unlikely location for the next San Fernando Valley. But, as the valley's fast development shows, many people prize good housing over leisure time. ■

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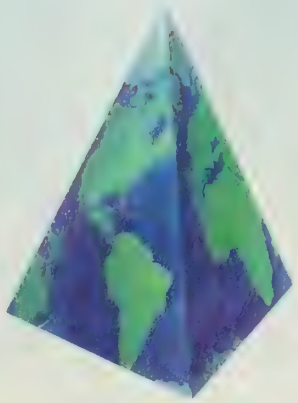

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After six very rough years, Denver's battered and depressed economy is finally beginning to show signs of life.

"You can't fall off the floor"

By Rick Reiff

AFTER SIX YEARS of flat sales in the Denver area, the Newland brothers' sheet metal and heating duct business, Hercules Industries, is up 15% this year. With revenues expected to pass $12 million, Hercules is planning to expand into a nearby tax-delinquent warehouse next spring, and for the second straight year is putting $100,000 into new tools and equipment.

Denver's economy, ravaged by the collapse in oil prices and a rash of overbuilding, went into the tank in 1985. The downtown vacancy rate soared to almost 30%, unemployment reached 8%, and for the first time in 20 years more people were moving out than moving in.

"We had a party here in the 1980s, but it had a false base: $30-a-barrel oil," says Paul Newland, the youngest brother and Hercules' sales manager. "Now it's coming back slowly. After all, you can't fall off the floor."

Free markets are wondrous things. In adapting to troubled times, much Denver business learned to be more efficient. The Newlands got through the long Denver slump by squeezing a 15% wage concession from its union and using the savings to buy new machinery and develop business as far away as Seattle and Las Vegas. A fifth of Hercules' orders now come from out of state, up from zero seven years ago. "It's the best thing we ever did, because when you go out of state you have to get more efficient," Newland says, smiling. The Newlands have expanded, while a number of their Denver competitors have died out, leaving them with a bigger share of whatever local business remains.

Now these trial-hardened companies are shifting from a survival mode to a growth phase. Among the positive signs: A reviving construction industry, fueled largely by public works around Denver and building in Colorado's growing resort towns, has added 1,300 workers this year after five years of decline. The medical center of the Rocky Mountains, Denver has seen health services employment rise at an annual 5.5% rate in the first three months of 1990. Overall, area employment, after dropping in 1986 and 1987, has slowly rebounded, growing 0.6% in 1988 and 1.7% last

Jay Dickman

Hercules Industries' Paul Newland
In troubled times, you've got to learn to be more efficient.

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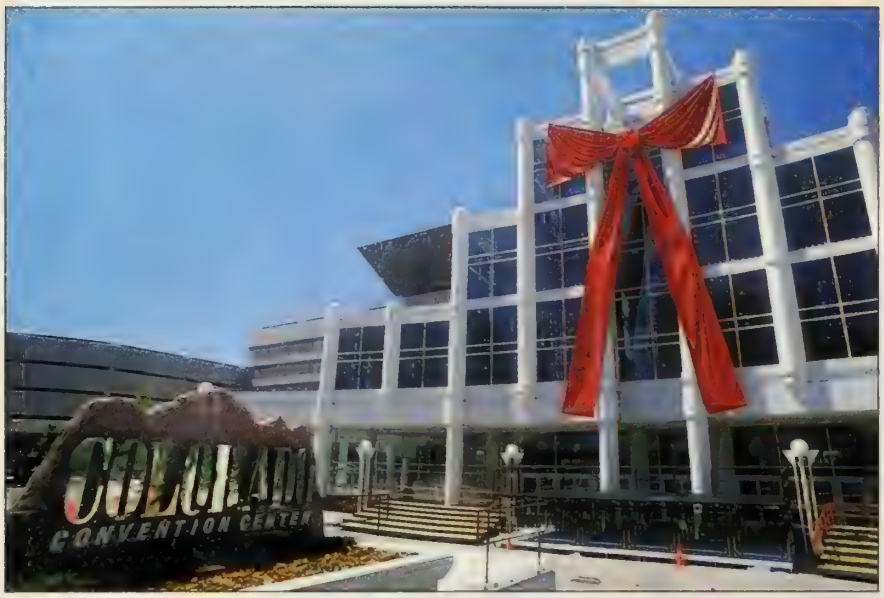

The brand-new Colorado Convention Center
Even at a cost of $126 million, it's already a success.

Jay Dickman

year. Airport traffic is up 4% after a three-year decline.

No longer dreaming of an oil and gas nirvana, Denver is readjusting to its historic role as a regional services and government center. Holding at about 1.9 million people, it boasts a central location, easy western living and a mountain landscape that, thanks to cleaner car fuels and wood-burning bans, is viewed through a less polluting smog than seven years ago.

The strong national economy has boosted Denver's tourism industry, up 5% in the first three months of this year. Agriculture, which constitutes about 7% of the Colorado economy, is in the fourth year of recovery, following the nation's farm economy generally. The Denver area's winter wheat harvest is expected to be up 55% over last year, while local cattle farmers were recently fetching a record $80 per hundredweight. Even energy-related employment, which once accounted for nearly 10% of the state's employment, has bottomed out, and is up almost 1% this year, though now generating only a sober 4% or so of the state's jobs.

Like many other busted economies, Denver's depression has sown the seeds of its recovery. Downtown office vacancy rates, for example, which still top the nation at 25%, have driven rents to a national low of $13 per square foot, on average, and renewed interest among relocating companies and bargain hunters. Merrill Lynch, American Express and Nordstrom have moved credit card processing operations to Denver, adding more than 1,000 jobs; Texaco moved 200 jobs from Texas, and AT&T's new long-distance communications center will employ 500.

The city now boasts the new $126 million Colorado Convention Center, which has already attracted three times the bookings of creaky old Currigan Hall. A bevy of tony retailers is flocking in. The Cherry Creek Shopping Center, 3 miles from downtown, will open in August with Saks Fifth Avenue, Neiman Marcus and Lord &

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Taylor all bringing their first stores to the area. Local billionaire Marvin Davis has announced plans to build another fancy mall on the southeast side, anchored by Nordstrom.

More important, in terms of new jobs, is the earth-moving for the city's new airport, a $2 billion gamble to try to become the second-busiest air hub after Chicago. While there is no assurance that the grand facility, scheduled to open in late 1993, will be the success Denver's city fathers expect, the airport will generate nearly 7,000 badly needed construction jobs in the meantime.

Tom Walls, owner of the Trinity Grill, a financial district watering hole of the powers that be, is so upbeat about Denver's prospects that he is adding a second restaurant downtown. "Five years ago people were looking at maps" to plot their way out, he says. "Now they're talking about trading up their homes."

Check out the prices: Paul Smola, who expects his own home-remodeling business to match its 1986 high of $750,000 in sales, is buying a ten-year-old four-bedroom home with a swimming pool in suburban Aurora for $161,000—only 45% of what it sold for five years ago. Hercules' Paul Newland recently bought a foreclosed home at Denver's Columbine Country Club for $260,000—that's $170,000 less than what the previous owner paid in 1987.

Relatively cheap housing was just one reason that Newmont Mining Corp. chose Denver over ten other western cities for the relocation of its corporate headquarters and 170 jobs from midtown Manhattan. Newmont's other considerations: excellent transportation and education facilities, and an unbeatable lease—$10 a foot per year for ten years.

"Denver is to hard rock what Silicon Valley is to high tech," says Newmont Vice Chairman Richard Leather, a relocated Long Islander turned Denver booster. "I don't wear a hat these days, but I do wear a western smile." ■

Jay Dickman

Denver's new airport under construction
The $2 billion gamble will provide nearly 7,000 construction jobs.

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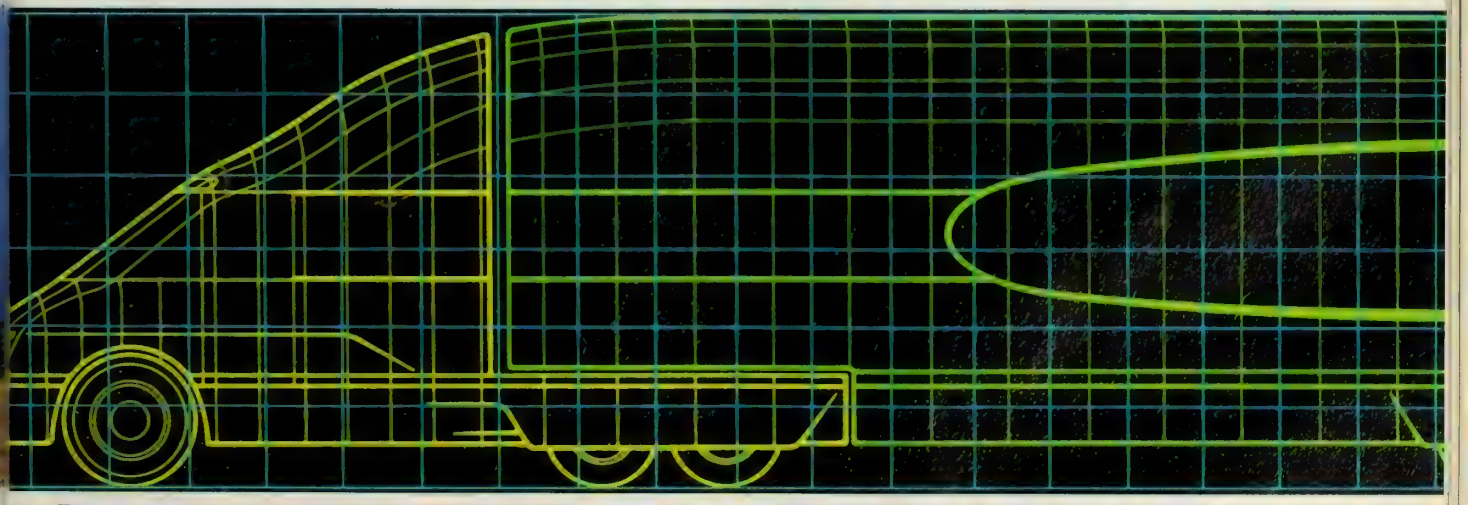

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You tell your broker to buy a high-flying stock for you. The stock bombs. Can you sue someone? Yeah, the broker.

Ya shouldn't a let me do it

By James Lyons

As if grasping lawyers didn't have enough business, a California state court recently ruled that stockbrokers have a duty to keep their clients from making foolish investments. Says Thomas LoSavio, a lawyer who has defended several brokerage firms, "This decision puts brokers in the same category as doctors, lawyers and accountants."

It would be comforting to dismiss the decision as a fluke. But the ruling is being used right now as a precedent in state and federal cases against stockbrokers—in arbitration cases, too.

Forbes would be the last publication to mount a blanket defense of all stockbrokers, some of whom are notoriously sleazy. But this latest ruling threatens to expose brokers to a rash of silly suits.

The case that started all this was Duffy v. Cavalier, which was handed down by a California court of appeals last November. The court held that a broker has an obligation to determine a customer's "actual financial situation and needs" and must not recommend "any inappropriate transactions." Exactly how much of a fiduciary duty brokers owe their customers varies with each situation. But according to Duffy, brokers have some fiduciary duty in all circumstances.

It is one thing for the courts to punish a broker who puts aged pensioners into gambles or even executes orders for them that look risky. But does the typical investor need to be protected against himself?

The Duffy case began way back in 1979 when a Lehman Brothers broker named King Cavalier placed a cold call to Elmore Duffy. Duffy was no duffer. He was then chairman and majority owner of Capital Wholesale Electric Co., an electrical supply house with $20 million in annual revenues at the time and 100 workers on the payroll. Besides running the company, Duffy managed its profit-sharing plan—and managed it rather badly. He had "invested" some of the plan's money in stock options, resulting in a net loss of $43,000.

Jean-François Allaux

What happened next is disputed, but everyone agrees that King Cavalier began brokering some investments for Duffy's profit-sharing plan, and in that capacity he lost about $90,000 on a series of trades involving Reynolds Metals call options. Basically the bet was that Reynolds stock would rise, but it quickly fell. Duffy now says that he chose options trading because he thought it would offer higher returns than safer, simpler positions in stocks. Instead of getting high returns, Duffy's account with Lehman was almost wiped out.

In last November's ruling the California court of appeals upheld an earlier jury verdict that Cavalier and Lehman should pay Duffy $300,000 in compensatory and punitive damages—in spite of the fact that Duffy had a previous record of playing the options market with the profit-sharing money. Lehman Brothers appealed the verdict, but in retrospect it seems it should have left well enough alone. On appeal, the court stated flat out that brokers have a fiduciary duty to all customers, be they sophisticated or naive.

Only in California? Defense lawyers say there is plenty of California craziness in the opinion by Judge Betty Barry-Deal. Former Lehman Brothers general counsel Saul Cohen quips that the appellate court's affirmance is a demonstration of the California court's own "lack of sophistication in securities matters."

True, but the Duffy ruling is already being used by plaintiffs' lawyers as a weapon in their assault on brokers.

Earlier this year another California appellate court cited Duffy in reinstating a suit brought against E.F. Hutton by two investors who bought into speculative, high-technology limited partnerships. Hutton maintained that the two customers should be considered sophisticated investors, and therefore needed no nursemaiding from a broker. Hutton had a good case: One plaintiff was the financial vice president of a small California company; the other was the controller. Both men had undergraduate accounting degrees.

But skill in taxation and accounting, the court found, did not give the customers expertise in high-tech research or limited partnerships. Apparently these plaintiffs weren't experts in reading, either. The offering documents for the limited partnerships in which these executives bet their money clearly noted that the investments entailed a high degree of risk. What's more, before doing business with Hutton, both investors signed agreements stating that they considered themselves sophisticated in the ways of the market.

Isn't it all wonderful? Take a gamble and win, and you get a sore arm patting yourself on the back. Lose, and you sue your broker. ■

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HYUNDAI

Americans were so thrilled by the personality and celebrity of Nelson Mandela they forgot to ask him what he stands for.

NO HARD QUESTIONS, PLEASE

By Michael Novak

One of the most abiding signs of racism in the media is its application of a double standard to blacks and to whites. This tendency was quite visible during the recent U.S. visit of Nelson Mandela.

Mandela deserves honor for the good humor with which he has stepped into the sunshine of world acclaim after enduring 27 long years in prison. His smile, his self-assurance and his purposiveness command our respect. His gentle manner wins our affection.

But none of this puts him above criticism. Since he came to the U.S. billed as a political leader, the media should have done a great deal more than merely celebrate him as a personality. Nelson Mandela is the most visible public face of an otherwise secretive and extremist organization, the African National Congress. Surely the substance of the ANC's aims is germane. Surely these aims should be discussed. But they were hardly mentioned during his visit here.

If Mr. Mandela were white—if he were Margaret Thatcher, Helmut Kohl, Fidel Castro or even Mikhail Gorbachev—his substantive views would certainly have been subjected to criticism. Yet no one seemed to wish to be the first to criticize a black hero. This was cowardice, born of a double standard.

And there is another problem with this quite admirable and attractive man: He maintains a close alliance with the Communist Party. Consistently, he exalts collectivist over individual decision making. He boldly and openly (on *Nightline*, on *MacNeil-Lehrer*) supports—in Marxist terminology—"progressive forces": Qaddafi, Castro, the Cuban-backed Marxist government of Angola, the PLO and others.

As David Roberts Jr. wrote in *Commentary* two years ago, "The important point is that the current ANC leadership—*all* of it—has accepted the terminology, definitions, political program, tactics and the entire load of ideological baggage that make up the essence of Leninism." Hammer-and-sickle banners drape the stage at every ANC rally.

Praising Cuba earlier this year, Mandela said: "There's one thing where that country stands out head and shoulders above the rest. That is in its love for human rights and liberty." Does he show no pity for Armando Valladares and those prisoners still in Cuba's jails?

The "constitutional guidelines" published by the ANC in 1988 give immense ideological discretion to any future ANC government that might wish to deprive citizens of their rights, as the *New Republic* recently noted. Under the ANC the state would have control not only over social and economic life, but also over habits, thinking, consciousness and behavior. It would have every instrument of control held by the current authoritarian government, plus new ones.

So what program was it that Americans were being asked to support during Mr. Mandela's whirlwind tour—$200,000 from the National Council of Churches, $5,000 per couple from a 1,000-people dinner in Boston, etc.? What will happen to black South Africans under an ANC regime? It could be what happened to dissenting Cubans under Castro. On this point, recent African precedents are not reassuring. Under an ideologically rigid ANC, South Africa could well suffer severe economic dislocations from a sudden descent into socialism, and thus experience damage far more severe than that of less-developed economies.

For one fact about current-day South Africa should not be dismissed: Execrable and humiliating as its apartheid system is, South Africa's economy offers brighter hopes for the future than does any other economy in sub-Saharan Africa. The ANC could easily destroy this hope, if its present thinking does not change.

Five years ago in *Commentary*, historian Paul Johnson noted that there were more black women in South Africa with professional qualifications (more than 100,000) than in the whole of the rest of Africa. Only in South Africa have the real incomes of blacks risen substantially for the last 25 years. There are more black-owned automobiles in South Africa than private cars in the whole U.S.S.R. All by itself, South Africa produces 75% of the total GNP of all of Africa south of the Sahara.

"If the Sahara is ever socialized," goes an Eastern European joke, "in two years there will be a shortage of sand." If Nelson Mandela is leading his people into a socialist night, he is no liberator. And his name will eventually live not in glory, but in infamy. It behooves those who would be his friends to question him closely on his aims—and to direct his attention to the disasters that have befallen socialist regimes during the 27 years he was in prison.

If we would not wish socialism upon European whites, we should certainly not wish to bring it down upon South Africa's blacks, who have already suffered more than enough. ■

Philosopher, journalist and ex-U.S. ambassador Michael Novak directs social and political studies at the American Enterprise Institute in Washington, D.C. His book The Spirit of Democratic Capitalism *has been widely translated around the world.*

ATLANTA: AN OLYMPIAN CITY

By Faye McDonald Smith

The *spirit* of Atlanta is what makes it a winner. Yes, it's the Southeastern capital of communications and commerce. It has beautiful buildings, a great airport, lovely homes, comfortable weather. It's a convenient place to do business; an easy place to live. But it's the spirit of Atlanta that sets it apart — a spirit of openness, idealism and a "we can" attitude.

As the U.S. designee for the 1996 Summer Olympic Games, Atlanta represents the noble ideas of the Olympic philosophy. It is a city unafraid to reach, to explore, to do. It is a city of connectedness, of people from different backgrounds and cultures coming together to make dreams real.

Atlanta Organizing Committee

OUT OF THE ASHES... LEAPING TO NEW HEIGHTS

Since its infancy Atlanta has been blessed with able, visionary leadership. Perhaps it was the burning of Atlanta during the Civil War that set in motion the legacy of strong leadership — leadership with an eye towards the future. The people of Atlanta rebuilt their city, and like the mythical symbolic Phoenix, the bird which rises out of the ashes, the new Atlanta emerged from visionary spirit and hard work. That same vision and commitment has propelled Atlanta to the apex of technological advances and business development.

Atlanta can take care of business. Blueprints and renderings soon transform into joyous groundbreakings. Effective political leadership paves the way for concrete economic results. Mayor Maynard Jackson works closely with elected officials and business leaders to create a strong pro-business environment. Such cooperation is a critical anchor for the success of several recent accomplishments. The $140 million Underground Atlanta, which opened last summer, is a vital downtown retail/entertainment complex. The Georgia Dome, a $210 million enclosed stadium, will seat over 70,000 people when it opens in 1992. The 1994 Super Bowl will come to Atlanta primarily because of the city's strong and enthusiastic bid to handle such an event. And of course, Atlanta's selection as the U.S. candidate city to host the 1996 Olympics is the result of a tremendous investment of time and resources. Hundreds of business and civic leaders, headed by former UN Ambassador Andy Young, are making it clear that Atlanta seeks the honor of carrying the Olympic torch.

It's this kind of cooperative spirit between the business community and government officials which provides an ideal atmosphere for businesses to set up shop. And many have. Atlanta is home to numerous U.S. corporations and international firms who have established headquarters or regional offices in this Jewel of the South.

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Kevin Ames, Atlanta 1990

Mayor Maynard Jackson, City of Atlanta

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Atlanta Hartsfield International Airport brings the international business community ever closer. Atlanta is a major connecting point and stopping point not only throughout the U.S., but to Europe, the Far East and Latin America. Last year, 1,752,597 international passengers came through the Atlanta airport, the second busiest in the world.

With about 2200 flights per day, Hartsfield provides direct plane service to 28 international destinations via nine foreign flag carriers and two domestic airlines. International traffic to and from Atlanta is so heavy that Hartsfield is expecting to build a new international concourse with 34 gates instead of the current 14. For some time, Atlanta has called itself "the next great international city." That phrase is now obsolete. According to the Atlanta Chamber of Commerce, Atlanta has 1,075 foreign facilities (including 33 international banks); 14 career consulates; 22 honorary consulates; 20 trade and tourism offices, and 9 foreign chambers of commerce. Atlanta *is* an international city.

The United Nations Institute for Training and Research (UNITAR) is planning to establish a major training center in Atlanta. The center will offer courses to diplomats, government officials and business executives

CONTINUED

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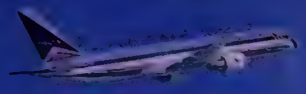

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BORDERS (CONTINUED)

in such areas as peacemaking, socio-economic development, environmental management and international law. The International Business Council (IBC) is another Atlanta resource which promotes international economic development. A part of the University System of Georgia, IBC links leaders in business, academia and the international community. One of its initiatives is the International Business Fellows Program, an intensive two-week seminar (part of which is spent in Europe), aimed at high-level managers who need or want more international experience. IBC also publishes an international services directory and sponsors an export marketing network to assist companies with overseas shipments.

Clearly, Atlanta recognizes the importance of the global marketplace in which it plays such a major role. Time and again it has proven that not only can it meet the challenges of international business, but it sets a new standard of leadership in this dynamic world-wide arena.

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SOARING UPWARDS, OUTWARDS & IN BETWEEN

If you want stagnation, don't stop here. Atlanta is a city on the move — growing taller, stretching further, strengthening within. Near the airport, Hartsfield Centre is under construction, a massive three-phase hotel/office joint venture between Balfour Beatty Developments and London & Edinburgh Trust. In the business district, the World Congress Center is trying to expand its already sprawling exhibition space of 640,000 square feet. At the Atlanta Market Center (AMC) a $145 million gourmet gift mart is being built. It will join AMC's popular Merchandise Mart, Apparel Mart, Decorative Arts Center and its high-tech arm INFORUM, a technology solution center where computer and communications manufacturers display their wares.

Downtown and in midtown, new office towers, hotels and retail marts are constantly changing the shape of the city. And every six months or so photographers worth their fee must climb their favorite perch to take yet another updated picture of Atlanta's dazzling skyline. CONTINUED ON PG. 8

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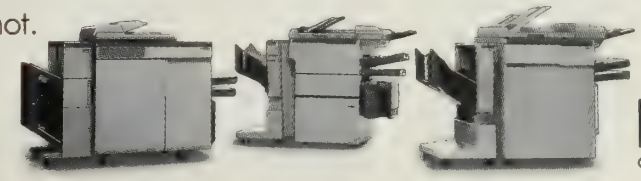

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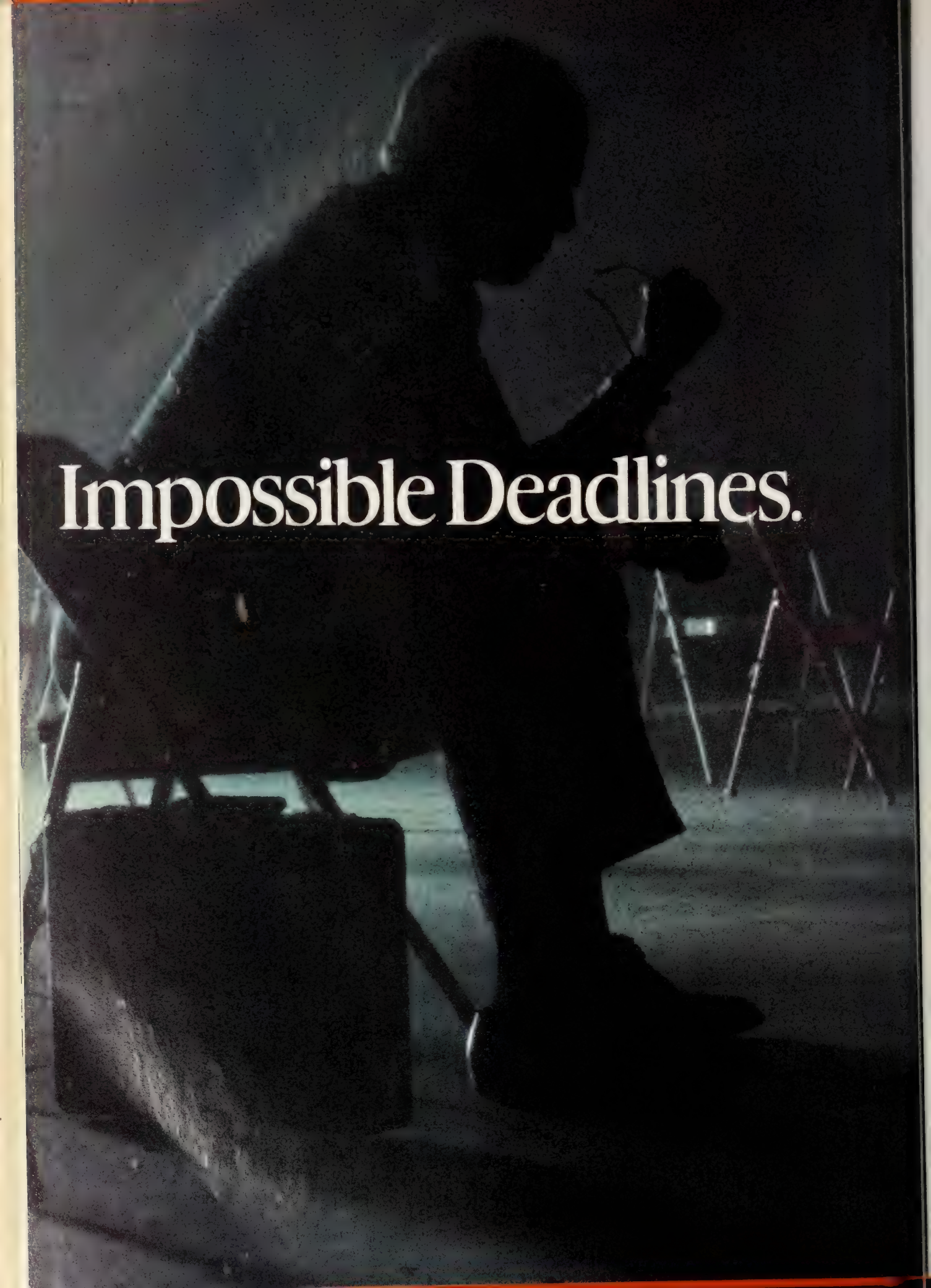
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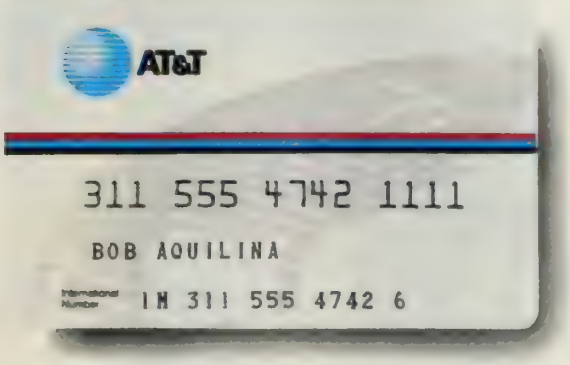

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HAVING A SWIMMING GOOD TIME

Atlanta is a fun place to live. It's uplifting, embracing, outrageous. You can be among 25,000 runners, joggers and Olympians who sweat trek in the Peachtree Road Race each 4th of July. You can join the 55,000 members of the Atlanta Lawn Tennis Association who play ball as hard as the pros. You can mix with the masses and flex your vocal chords for the Hawks, Braves, and Falcons and the collegiate Georgia Tech Yellow Jackets and Georgia Bulldogs (uh, Dawgs).

But if crowds crowd you and respite's more your speed, try boating at Lake Lanier for a reflective cruise around the bay. Visit the Martin Luther King, Jr. Center, the Jimmy Carter Library, the High Museum of Art. Indulge in restaurants where dining is fine. Or browse for a while at Great Gatsby's, an architectural antique dealer. There you can pick up exported "trinkets" like a Ferrari, Oriental rugs, or garden statuary for your backyard.

Cotten Alston

The Dorothy Chapman Fuqua Conservatory at the Atlanta Botanical Garden.

For some of the best music in town, patronize the parks. At Chastain, savor a champagne and caviar picnic to the sounds of the Atlanta Symphony Orchestra. Or take in live, free jazz at Piedmont, home of the renowned Arts Festival. Piedmont is also the site of the Atlanta Botanical Garden where you can get an eyeful, and then some, of the most exotic flora around. While there, don't miss the Dorothy Chapman Fuqua Conservatory, a glassed horticultural delight. This $5.5 million gift from Atlanta industrialist J.B. Fuqua, is a haven for thousands of tropical, desert and endangered plants.

Want mountains? Drive north to Helen, GA or the Great Smoky Range. Crave water? Go south to Savannah/Hilton Head for some of the best beach in the East. Hike at Callaway, bike to Lenox, raft down the Chattahoochee and tee off at Bitsy Grant, one of the city's gorgeous greens.

Atlanta truly has something for everyone. Check out the laser show at Stone Mountain, the Sumatran tiger at the zoo, a concert at the Fox. White Water, Six Flags, the Atlanta Ballet. Hop a ride on MARTA and the New Georgia Railroad. And don't forget Underground.

Michael Alexander

SOARING UPWARDS

CONTINUED FROM PG. 4

But the bricks, mortar and glass, impressive as they are, comprise only the glossy top coat that makes Atlanta shine. The real foundation, the prime layer, is the winning attitude of Atlantans who work enthusiastically to keep their city a frontrunner.

As one of the nation's top convention centers, Atlanta has the infrastructure in place to handle large numbers of people. Not only does it meet the needs of its own diverse metropolitan population of 2.5 million, but it plays host daily and graciously to thousands of visitors. Whether welcoming 80,000 sporting goods delegates to the Super Show, or 80 relatives for a family reunion, Atlanta offers unparalleled hospitality. Which is why many visitors choose to stay. Stories abound of folks who, "just stopping over," end up putting down roots. That's the ultimate compliment for any city.

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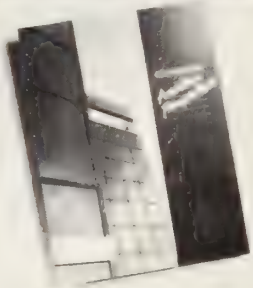

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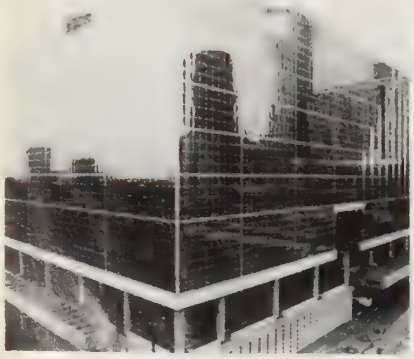

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Atlanta, Georgia

Michael Alexander

"The Freedom Quilt," a mural of international and political figures, painted by David Fichter and numerous volunteers.

RELAYING THE BEST OF THE OLD AND NEW

Atlanta is a marvelous blend — of Southern charm and ethnic diversity. Of rocking chair porches and high-tech. Of mint julep and Dom Perignon. It's the peaceful co-existence of the old and new that makes Atlanta unique.

Developers dialogue with preservationists to make sure that the least number of trees is disturbed. Trees get respect in Atlanta, where over 500,000 forested acres grace the metro area. And houses. Oh, those houses. From majestic mansions to modest bungalows, Atlanta architecture is a sight to behold. More than 120 homes and buildings in Fulton County alone are listed on the National Historic Register. And it's not unusual to find imperial condos and ante-bellum homes in the same eclectic neighborhood.

Much as they nurture their living spaces, however, Atlantans aren't ones to hibernate. They're interested in the total environment, such as improving public education, assisting the homeless, reducing crime. These are among the main challenges facing the city. But in true form, Atlantans are jumping hurdles, overcoming obstacles and tackling the tough issues. CONTINUED ON PG. 12

Calvin Carter
Commissioner of Aviation
Hartsfield Atlanta International Airport

Atlanta has the second busiest airport in the world which gives us great accessibility throughout the U.S., Europe and the Far East.

We welcome visitors, and the proactive stance of the city encourages foreign investment. . .We're a bustling metropolis, yet, five miles outside downtown, there's farmland. When you fly over Atlanta, you see a lot of green.

Wes Cantrell
President & CEO
Lanier Worldwide, Inc.

Atlanta has people strength — a diverse mix of well-educated professionals as well as skilled blue collar workers. That's attractive to employers who are looking for good workers at competitive rates.

There's an upbeat business community here. Like many companies, we're involved in the Adopt A School program, which is one way we can assist in public education.

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OLD AND NEW

CONTINUED FROM PG. 10

Throughout the city, Atlantans are involved in philanthropy, volunteerism and lots of hard work. The business community has been extremely responsive in doing its part. One example is the Atlanta Gas Light Company, the state's oldest corporation. Founded 134 years ago to "light the streets and buildings of Atlanta," today it is offering much more than gasoline. Through its Gatekeeper Program it connects elderly customers and other clients to appropriate resources, and it supports school projects through business education partnerships. Another major utility, Georgia Power, is creating jobs for Atlantans. It works closely with the state to recruit desirable industry and it helps communities develop strategies for successful, commercial development.

Through Project HOPE, Georgia Pacific is building affordable housing in distressed communities, enabling the working poor to own their homes. The Coca-Cola Company is investing $5 million to support education projects, particularly at black colleges. And the list goes on . . .

Individually and corporately, Atlanta pulls together to glean the best from its past and present. To make the most of its future.

Michael Alexander

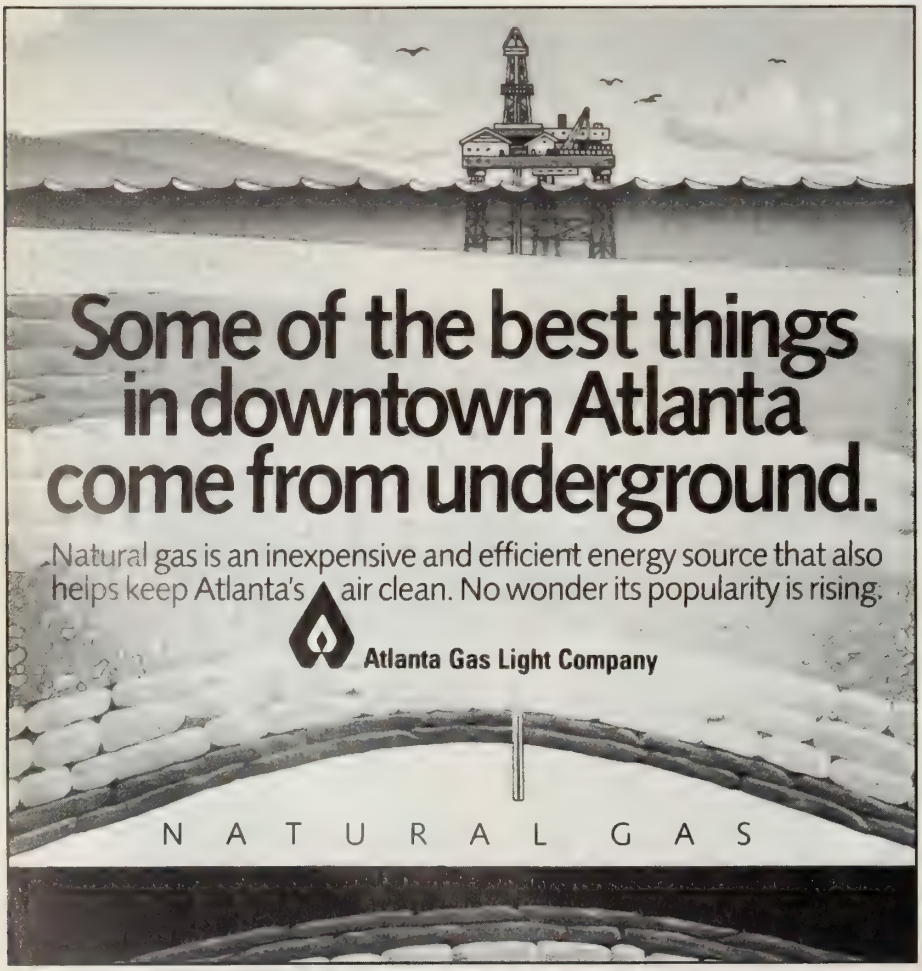
Street Level Entrance to Underground Atlanta.

REACHING FOR THE GOLD

Many adjectives could aptly describe Atlanta — progressive, daring, accessible, friendly. But more than a word or two, what makes Atlanta special is its community spirit — the capacity to reach a consensus and do what's right for the city.

Atlanta has set and surpassed many records. The first this, the first that, the one that got the prize. Certainly, its latest honor, as the U.S. candidate city to host the 1996 Olympics is added proof that Atlanta is able, willing and ready. Atlanta would cherish the privilege of bearing the Olympic banner. But tributes come and go; pomp and ceremony fade away. What's most important to the people of Atlanta is to maintain their winning spirit of community.

First and foremost, Atlantans love their city. And that's what makes Atlanta — Atlanta.



Willi Wittwer
CEO
U.S. Organization
Swiss Bank Corporation

We've been in Atlanta since 1978 and it's been very good for us. Atlanta has excellent flight connections which is important for us to effectively serve our customer base.

Atlanta should continue to attract good, clean industry. The state of Georgia is internationally oriented; few places are as encouraging and catering to international markets.

Charles Loudermilk
President & CEO
Aaron Rents, Inc.

Nowhere else in the world do blacks and whites sit down and talk to each other as often and honestly as they do in Atlanta, Ga. - and that promotes a good business climate.

Atlanta has been fortunate for the leadership that has brought its talent and organization out into the open. Our infrastructure is doing quite well and the whole international scene has opened up to world trade. We're riding a wave of good fortune.

Michael Alexander

OPENING DOORS IS OUR BUSINESS

If you're thinking of doing business in Atlanta, make your first stop the Atlanta Economic Development Corporation. At AEDC, we develop industrial parks, renovate commercial districts, revitalize neighborhoods. We target investment opportunities, coordinate small business loans, provide financial incentives.

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Walter R. Huntley, Jr., ***President***

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Environmentalism is not so much a cause as it is a religion in California, but its proponents' zeal is beginning to hit the voters where it hurts.

Drought!

By Marc Beauchamp

GROUND ZERO in the great California water shortage is Santa Barbara (pop. 77,000), on the coast 90 miles northwest of Los Angeles. The city's main reservoir is at its lowest level ever, and new pumps will be needed to suck out what water is left. Another reservoir, from which the city used to get nearly a third of its water, turned to mud last November. The city has made it illegal for residents to water lawns (some homeowners are painting their dead lawns with green dye). A team of "drought cops" patrols the streets.

With California in the fourth straight year of drought, and no letup in sight, Santa Barbara is only the worst off. San Francisco has imposed a 25% cut in water use. Water is metered throughout most of California so usage can be closely monitored. Water wasters in San Francisco, for example, are slapped with costly and rapidly escalating surcharges. In late June, as a heat wave broke records, Los Angeles residents were facing mandatory water cutbacks of 10% of normal usage. The Peoples Republic of Santa Monica recently began fining households without low-flow showerheads and low-flow toilets $1 a month. (Low-flow toilets use 1.6 gallons per flush. Normal toilets use 3 to 5 gallons.)

Yes, rain would help. But no matter how drenching the rain or how heavy the winter snowpack in the Sierra Nevada Mountains, more than a third of the water that could be captured for the state cannot be. Simply put, the aqueducts and reservoirs that ship and store water throughout the state have been kept intentionally too small. Why? Because the sacred cause of environmentalism decrees they should be kept small. Environmentalists have used the courts and manipulative propaganda to impose their wills on the people of California.

Water could well be the issue that brings California to its senses on environmental issues in the 1990s. Keeping the air clean, population density down and saving water are popular issues; going without water is not popular. In 1979 Santa Barbara residents voted down a bond issue that would have connected the city to the State Water Project, which Santa Barbara helped pay for. Why? The voters were afraid that more water would make more development possible. But the city grew anyway, about 1% a year. Now it doesn't have enough water to meet normal needs.

Southern California's semi-arid coastal plain, home to 6.5 million jobs and a $365 billion economy, is primarily dependent on three systems of aqueducts that bring water from distant watersheds. They are the 242-mile Colorado River Aqueduct, from the California-Arizona border; the Eastern Sierra aqueducts, fed by water from the Owens Valley and the Mono Lake basin, some 340 miles north of Los Angeles; and finally the State Water Project that comes in from the Sacramento-San Joaquin Delta, west of Stockton and some 500 miles north of Los Angeles.

Supplies from each of these crucial water systems have been or are now slowing. Over the next two to five years Los Angeles' water from the Colorado River Aqueduct will be halved, as the state of Arizona begins to take its share of the Colorado River runoff under a 1964 ruling by the U.S. Supreme Court.

Self-anointed environmentalists went to court and forced a two-thirds cut in water shipments from the Owens Valley and Mono Lake. Their motive? They argued that falling water tables might kill native plant life in the valley and harm the trout, brine shrimp and migratory birds in and around Mono Lake. A long-planned $2 billion expansion of the State Water Project has been stalled for a decade by conserva-

Alejandro Tamas

Gibraltar Reservoir near Santa Barbara
Ground zero in California's drought.

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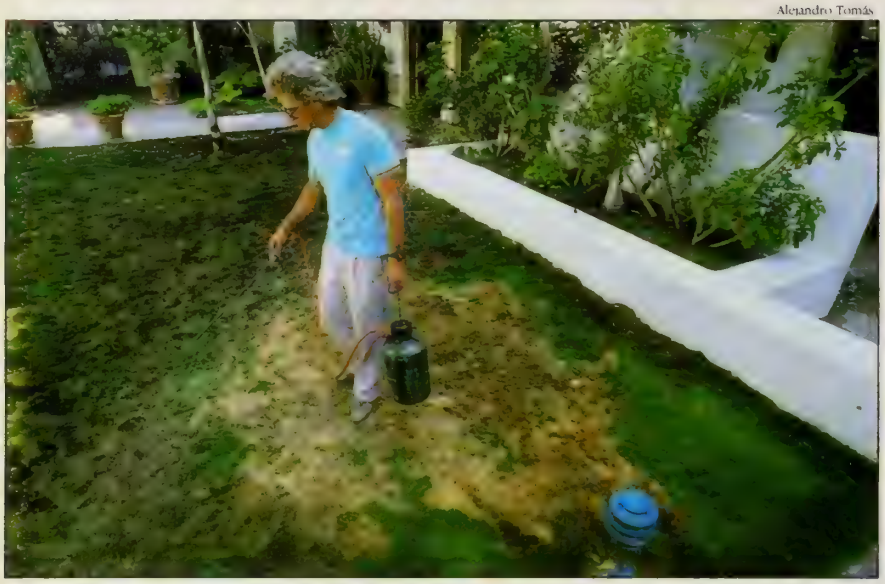
Alejandro Tomás



Painting dead grass green in Santa Barbara
The city has made watering lawns illegal.

D. Altman Fleischer

Duane Georgeson
People count, too.

Art Wolfe/Allstock

Mono Lake, some 340 miles north of Los Angeles
Putting plants and animals ahead of people.

tionists trying to protect the striped bass in the Delta.

Plants and animals are ahead of people. It's that simple. "All our water sources in southern California are threatened," says Duane Georgeson, assistant general manager of the Metropolitan Water District of Southern California. The water agency predicts the resulting water shortages could lead to a $30-billion-a-year hit to the southern California economy.

To environmentalist obstructionists add California's powerful farm lobby. Crop receipts account for less than 3% of the state's $730 billion annual economic output, yet 85% of the state's developed water is used by farmers, who pay as little as $10 per acre-foot under long-term, taxpayer-subsidized contracts, while residents of Los Angeles pay an average of $500 an acre-foot. (An acre-foot is 326,000 gallons, enough for two average families for a year.)

California's farmers produce thirsty, water-intensive crops like alfalfa, cotton and rice. Grass for livestock alone sucks up enough water to supply all of California's current population with plenty to spare. Says state Assemblyman Phil Isenberg (D–Sacramento), a member of the Water, Parks & Wildlife Committee: "If agriculture saved just 10% of its water, enough would be available to cities for perhaps as long as 50 years."

So it's two powerful lobbies, farmers and environmentalists, one-issue types versus the people of California. The people are beginning to stir. Early this year, after six years of negotiations, the Imperial Irrigation District, 160 miles southeast of Los Angeles and the state's largest consumer of Colorado River water, agreed to line its dirt canal system with concrete, thereby saving enough water to supply 200,000 southern California homes for a year. To get the water, the Metropolitan Water District agreed to pay for the $140 million canal-lining.

Acknowledging that water is an increasingly scarce resource, some farmers are putting in new, higher-tech irrigation systems that use water more efficiently. Low-margin, thirsty crops such as grains and alfalfa are slowly giving way to more profitable and less thirsty crops such as vegetables and fruits.

There are strong indications that the state's voters, and, right behind, its politicians have lost patience. A recent Field poll put water after only drugs as Californians' chief concern. Eighty-one percent of Californians now say they favor expanding the water supply system.

Governor George Deukmejian has begun pushing a $1 billion plan to improve water transfers through the Delta. Some 40% of the state's drinking water flows through the Delta, where dilapidated 100-year-old peat levees strain to keep out the salt water of San Francisco Bay. Dianne Feinstein, the Democratic gubernatorial candidate, recently offended some environmentalists by saying she could support construction that would bring more water out of the Delta. Never mind that the construction might harm a few fish. As Duane Georgeson says: "The idea of zero impact on endangered species is unrealistic in a state with 30 million people and soon to be 40 million people. It's unrealistic to expect to preserve every aspect of the ecosystem." People count, too. ■

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–Car and Driver

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Ford Taurus

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* Plus the Aga Khan, Citizen of the World.

As the biographies that begin on page 124 show, the world is full of fascinating billionaires. But relative to their populations, neither the U.S. nor Japan has created as many billionaires as has West Germany.

The long ascent from Stunde Null

By Richard C. Morais

EVERY YEAR an intriguing pattern emerges from the hunt for billionaires. In 1987 what jumped out from the list was the large number of Japanese individuals who owned extraordinarily expensive land. In 1988 the list was heavy with Europeans who had amassed fortunes in postwar Europe's growth industries: retailing and distribution.

What pattern stands out this year? The number of billionaires West Germany has created.

With the considerable assistance of our new German sister publication, *!Forbes von Burda,* we have identified 38 billionaire families in West Germany (their profiles begin on page 221). For Japan the number is 40; for the U.S., 99. But remember: West Germany has half as many people as Japan, and one-quarter as many as the U.S. Per capita, West Germany has created far more billionaires than either Japan or the U.S. And has done so with remarkable speed.

Consider Germany's *Stunde Null,* the Zero Hour, when in the summer of 1945 the country took stock: 3 million homes destroyed; 8 million refugees from the East in makeshift shanties in the rubble; a daily ration of just 700 calories per person; meals of boiled turnip and potato; a bankrupt Reichsmark; a black market economy running on barter.

Today the 38 wealthiest German families could, if they were so inclined, gold-plate every square meter of Germany's extensive autobahns—including the gas stations and off ramps.

The country's economic recipe is well documented. The basic ingredients were the Marshall Plan, economic liberalization under Ludwig Erhard in 1948, monetary and political stability, a strong work ethic.

But there is a lesser-known yet equally important reason for Germany's success at creating billionaires. It's called *Der Generations Vertrag*—the contract between generations.

At the root of this intense wealth creation is the German's near religious reverence for the family business. If German children are expected to take care of their parents in old age, the parents are under even more pressure to leave an inheritance.

It's the law. Germans must leave the bulk of their wealth—even against their will—to immediate family. The industrialist who leaves $1 billion to three sons, disinheriting black sheep son number four, knows the black sheep can take the estate to

AP/Wide World

Frankfurt, West Germany, March 1949
Just after Erhard's great liberalization, a breeding ground for billionaires.

court and almost certainly win a $125 million share.

West Germany's inheritance tax system, too, encourages the passage of family wealth from spouse to spouse and from parents to children. The children and wife must pay, at most, just 35%; the nephew or girlfriend is taxed at up to 70%. Inherited land gets an even better break: The son or daughter will pay maybe $5 million on real estate with a market value of $100 million.

For estate planning reasons alone, then, it made perfect sense for Max Grundig, who died last year at 81, both to marry Chantal, now 41, and to father another child—Maria Alexandra, now 10—by her *(see p. 221)*. Young Maria and her descendants are the principal beneficiaries of a foundation set up solely to sustain Grundig offspring.

Or consider 86-year-old Erich Brost *(see p. 234)*. A Socialist Party lawyer, Erich Schumann, 59, is running Brost's WAZ media group. In 1985 Brost legally adopted Schumann, who was 54 at the time of his adoption. The legal paperwork will cut in half estate taxes on Schumann's share.

In the U.S., the crowning glory of a career may be listing the family-built company on the New York Stock Exchange. In the $1.3 trillion German economy, there are just 492 publicly traded companies. In large part, that reflects the clannish desire to maintain family control. "The families want the continuity," says Heidemarie Sherman, senior economist at the IFO Institute for Economic Research. "They want to groom a member to take over the family business."

Even many of Germany's self-made billionaires inherited their start in life. Publishing magnate Reinhard Mohn *(see p. 234)* built his Bertelsmann empire out of the tiny Bible publisher he inherited. The Albrechts *(p. 228)* and Leibbrands *(p. 232)* built their supermarket chains out of mom-and-pop stores they were bequeathed.

"If you do not take over the family business, there probably is something wrong with you," says Rolf Dienst, president of Matuschka Group, a Munich-based investment bank. "Your father was probably not happy with you. It's a big disaster if the family does not have a successor."

How different from the U.S., where most parents are usually careful not to pressure their children into the family business—for the good not only of the children but of the business (and other relatives) as well.

There is a less salubrious aspect of the German way of creating billionaires. While helping to keep a business in the family, deciding not to sell equity to the public cuts the business off from what can be very attractively priced capital.

As bad if not worse, the pressure to groom a bloodline heir can easily crimp the flow of the best managerial talent into the business. Sometimes the heirs are extremely capable. Direct mailer Michael Otto *(p. 226)* has enriched the family enterprise. But they can also be disasters—Friedrich Karl Flick *(p. 238)* was for years criticized for his neglect of day-to-day business.

Some West Germans believe that concentrated individual wealth in their country is a transitory phenomenon. Before the recent influx of penniless East Germans, West Germany's population had been declining. Observes Meinhard Miegel, director of IWG, a Bonn-based think tank: "The first phase of a declining population is a very fast increase in material wealth." Imagine two households with one child and one house each. The children marry and build their own house. When their parents die, they wind up with three houses—a trend that cannot go on very long.

"If you go through downtown Munich, you will see sitting in cafes what we call the *Schickeria*," says Sherman at the IFO institute. "These are the young people who inherited two apartment buildings in Munich. They never worked. They graduated from high school, maybe, and now they are collecting rent, living very nicely. It's a new phenomenon in Germany."

Miegel adds: "As soon as someone starts enjoying his wealth, that's it, he's finished. The first generation is hungry, the second preserving, the third easygoing, the fourth is wasting. We are entering the easygoing stage; we're not yet into wasting. Which means we are programming stagnation, not today or tomorrow, but in the foreseeable future."

To date, FORBES has identified 271 businessmen and families on this increasingly prosperous planet who have made and/or kept $1 billion or more. The billionaires profiled in this issue are all from outside the U.S. The American billionaires, listed briefly on page 189, will be described more fully in the annual Forbes Four Hundred special issue, to be published in October. ■

H.P. Merten/Stock Market

The same scene (note triangular façades, center) 40 years later
To the forces behind the economic miracle, add "Der Generations Vertrag."

TAIWAN

Y.C. WANG

Why Wang went to China

Wang caused a major ruckus this year when he visited the mainland to talk about building a huge plant to produce ethylene, a basic building block for plastics. Even though indirect mainland investments now total an estimated $1 billion, the Taipei government has forbidden Taiwanese to invest in such strategic industry on the mainland. Moreover, Wang, 73, had been a longtime opponent of investment on the mainland.

So why did Wang cross the Formosa Strait? He did it for the same reason he's investing $1.7 billion in the U.S.: He's up against brutal growth limits in Taiwan, which is in a political uproar over pollution. The government has put a production lid on its Chinese Petroleum Corp., Wang's only Taiwan supplier of ethylene for his giant (annual sales, over $6 billion) Formosa Plastics Group.

Wang can't import ethylene because it's too dangerous to ship. (it explodes). But he needs more low-cost capacity to maintain market share, even though the prospects for growth in ethylene-supplied businesses are grim over the next 2½ years.

Ed Kashi

Y.C. Wang

Ah, but the Communists love him. They want a gigantic $5 billion complex, along with all the downstream petrochemical processors, which have to be near the ethylene plant because of transportation dangers. It's a strategic industry Taiwan can ill afford to lose. That makes it a good bet Wang's trip was just a ploy to pry more ethylene production out of Taipei. Sources insist Y.C. will never build on the mainland without at least the tacit consent of Taipei—which is earnestly saying no.—**William Heuslein**

KOO FAMILY

Poised to profit (again)

As capital export controls liberalize and Taiwanese money moves overseas, the long-established Koos are preparing to profit. Already, in the 1990 first quarter, net outflows were over $3 billion. Expect a lot of that to land over here: China Trust Chairman Jeffrey L.S. Koo is planning to add several U.S. branches to China Trust Bank, the Koos' New York presence, and a representative office in London.

Back on Taiwan, the government is moving to permit private commercial banks. The well-connected, politically adept Koos are in line to get one of the hotly contested licenses. (As a trust company, China Trust now cannot take checking deposits or make short- or long-term loans.) For Jeffrey Koo, 57-year-old New York University M.B.A., the strategy is to tap Taiwan's growing financial sophistication with ever-broader financial services. China Trust, with 1989 pretax earnings of $103 million, likely will also go public this year.

The main family holding company, Koo Development Corp., includes interests in cement, petrochemicals and shipping, among other things. In January a consortium led by the Koos acquired the U.S.' Wyse Technology for $160 million.

Jeffrey L.S. Koo

Excellence Magazine

Connected? Jeffrey's uncle, Koo Chen-fu, 74, is an adviser to the ruling Kuomintang and a central standing committee member. Jeffrey is an adviser to Premier Hau Pei-tsun. Do business in Taiwan, and you're likely to meet the Koos—and soon, maybe here as well.—**William Heuslein**

CHANG YUNG-FA

Flight capital, floating assets

Chang's Evergreen Group, the world's largest container shipper (1989 shipping revenues, at least $1.3 billion), is well into its biggest diversification ever: With permission to begin Taiwan's second international airline, Evergreen has $3.6 billion of Boeing and McDonnell Douglas aircraft on order for its EVA Airways Corp. unit. EVA will compete against state-managed China Airlines and begin flying Taiwan-Southeast Asian routes next year.

Service to Japan and the U.S. will begin later. But the route 62-year-old Chairman Chang wants most doesn't yet exist: the direct Taiwan-mainland-China service.

Evergreen Marine Corp., Chang's major shipping unit, is also expanding despite a 37% drop in net income last year, to $63 million, allegedly due to

Chang Yung-fa Ed Kashi

overcapacity and price-cutting. Five new containerships are planned. The Uniglory Marine unit plans to add four. Chang's considering financing part of this with $200 million of convertible bonds for the Euromarket—a first for him, and investors are wary of Far East debt now. Obviously Chang thinks the overcapacity is in competitors' hands.—**William Heuslein**

HSU FAMILY

Coping with limits

The Hsus' Far Eastern Textile Group has been following the Taiwanese trend of moving manufacturing off the island into the rest of Southeast Asia.

The group's synthetic-fiber division has been one of its big moneymakers. Taiwan's limited domestic supplies of petrochemical-based raw materials hurt synthetic-fiber production at home; so do ever-rising labor and overhead costs. So the Hsus now have a controlling interest in a major Philippine producer. Far Eastern is said to be looking to buy a North American source, too. To finance expansion, it's considering turning to the Euromarket with a $100 million convertible bond offering.

Behind all the moves is Douglas Hsu, a Columbia grad and son of founder and chairman Y.Z. Hsu. The elder Hsu ran a small Shanghai knitting factory but fled to Taiwan in 1949 with Chiang Kai-shek. Diversification began in the late 1950s. Last year the textile conglomerate chalked up sales of $3.4 billion.

Far Eastern's retailing company is Taiwan's top nationwide department

Douglas Hsu Excellence Magazine

store chain, and had record sales last year of $394 million. With foreign retailers moving into Taiwan, some analysts say Hsu should be expanding stores more aggressively. But Douglas knows there are limits to expansion: Far Eastern, like the other Taiwanese conglomerates, is learning that the island's overheated economy cuts both ways.—**William Heuslein**

Very big, China

In 1987 Taipei eased foreign exchange controls a bit, but until very recently it didn't much matter. Money chased opportunity at home until the island sloshed in liquidity. Blue-chip stocks sold at 200 times earnings; real estate went just as crazy.

But this spring the stock market collapsed—a 200-P/E stock became a mere 150-P/E stock, then less. Property fell, too, as the island's excess liquidity began to evaporate. Last year there was a net capital outflow of $8.2 billion; much more is going this year. The costs of capital and labor are rising, the local currency is falling and general fears of pollution are slowing or halting industrial expansion *(see Y.C. Wang)*. Crime, especially kidnapping, is on the rise. There are political uncertainties, too, as the old Kuomintang order gradually gives way to an ill-understood new one. Moaned one Taiwanese source to FORBES: "The investment environment in Taiwan is ruined."

So the businessmen are looking beyond the island. Some go to the U.S. *(see the Koo family)*. More go to less expensive Southeast Asia, where Taiwan is now a major investor in virtually every country, often in the old-line, labor-intensive industries Taiwan grew fat on. Rather than try to stem these capital outflows, Taiwan's central bank is moving to offer businesses foreign exchange loans.

The greatest potential is investment in mainland China. There, Taiwanese investors sense a familiar opportunity: cheap currency, cheaper labor, promises of credit—and a government that will brook no social upheaval, nor trade much growth for environmental purity. Taiwanese businessmen like Wang probably figure China could be like the good old days in Taiwan again, only bigger. Much bigger.—**William Heuslein**

Homo Aga Contact

Rush-hour traffic in Kaohsiung, Taiwan
Dirty-air constraints on growth.

TSAI FAMILY

What next?

The Tsais could use a new investment idea. Up until now, plays on astronomically priced Taiwan real estate have been a big kicker for life insurance companies in Taiwan, especially the largest—Tsai Wan-lin's Cathay Life (assets under management, $7.2 billion), of which Tsai owns 65%. But the Taipei legislature is working on a new law that's expected to cut the percentage of assets insurance companies can invest in real estate to 25% from 33%. It's yet another move to reduce the head of investment steam in Taiwan real estate.

Excellence Magazine

Tsai Wan-lin

Until now, everything's been great for Cathay Life. About five years ago, when prices were in a trough, Cathay had the cash to pick up bargains. And Tsai did so with enthusiasm. Cathay continues to grow strongly: Premium income rose to $2.4 billion last year from $1.8 billion in 1988—over 50% of the market. And Taipei has started to allow some U.S. companies in.

Yet there are signs of caution. Cathay Construction—Tsai owns 60%—is Taiwan's largest nongovernment construction company. But its growth has slowed because it apparently has not been replenishing its own land bank. Could be the Tsais are too busy looking for the next major opportunity.—**William Heuslein**

DR. SHI H. HUANG AND FAMILY

There was a doctor in the house

In 1978 the Chinese neurosurgeon at Washington University and the V.A. Medical Center in St. Louis got a call from Taiwan. His father was dying and the doctor was needed to take over the family business—one of the largest producers of motorcycles and automobiles on the island. Dr. Shi H. Huang had trained in neurosurgery, not motorcycles, and practiced for a quarter-century in Japan and America. But the Confucian ethic of duty to family is strong. So to motorcycles he went.

Shi H. Huang

Excellence Magazine

Back in Taiwan, he found himself not just burying his father but in a power struggle with his father's old cadre of executives. It was brief: They knew the ropes, but he had control and forced them out.

Today, Dr. Huang, 64 and a new member of the billionaire class, is 12 years into his second career and running one of Taiwan's largest industrial and investment groups. Holding company Ching Fong Investments' interests range from making and selling Honda cars and motorcycles (under exclusive license) to financial services and trading. Privately held San Yang Industry Co. (the Huang family owns around 65%) makes the Hondas; 1989 net profits were $73 million. Nan Yang Industries is the main distributor: It earned $22 million.

Ching Fong also controls $2.2 billion (1989 assets) Cathay Investment & Trust Co., Ltd. Cathay got caught in the notorious Tenth Credit Cooperative banking scandal that shook Taiwan's banking system. In 1985, with Cathay near collapse, the government stepped in. Three years later it persuaded Huang to take over Cathay. He holds 50%; in 1989 it made $98 million. Ching Fong also has interests in construction, high technology and venture capital. It all traces to Shi Huang's father, C.C. Huang, who started a 10-person factory for bicycle lighting sets in 1954. Honda motorcycles came in 1962, and cars in 1969. But it was C.C.'s son, not his factories, that proved his most valuable asset.—**William Heuslein**

KOREA

CHUNG JU-YUNG AND FAMILY

Modern times

Hyundai in Korean means "modern times." For Chung's Hyundai, Korea's second-largest *chaebol* (conglomerate), modern times has meant labor trouble, but things may be looking up. In this year of tougher government policy and a less robust economy, Hyundai's labor conflicts have been considerably milder than in any of the last three years. Settlements came fast, amounted to a relatively modest 7.5% increase, and much less production was lost.

Hyundai's unions are the largest in the country and its management one of the most unyielding. Honorary chairman and founder Chung Ju-yung, 74, who started Hyundai after World War II, forged the sprawling group with an iron fist. The paternalistic Chung ruled (as opposed to managed) Hyundai's work force. Nominally retired, he still runs the show behind the scenes. But the rise of the labor movement in Korea has cut deeply into his ability to rule.

This is especially important now, when Hyundai is facing tougher international competition in a tougher economic environment and is making an important push into petrochemicals. Traditionally, the government lets a few companies into a new industry, then closes the door and gives the lucky ones preferential treatment. Evidently, the Chungs badly want in,

Charlie Cole/Picture Group

Chung Ju-yung

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badly enough to live with expected short-term overcapacity—eventually, they figure, growing demand would outpace permitted supply. But it all adds up to more pressure to keep down current costs like wages.

Considering this volatile mix, Hyundai's relatively tame settlements—in line with other *chaebol* experience—look like a good augury for Korea.—**William Heuslein**

KOO FAMILY

Power plays

The Koos, along with their relatives by marriage, the Huh family, have a lot of rethinking to do at their Lucky-Goldstar Group. Especially dependent on exports, the group is suffering from the cheaper yen (competing Japanese goods are more attractive) and rising Korean labor costs. Lucky-Goldstar has catching up to do on R&D, product development and improving its manufacturing. L.S. Hwang, of Prudential-Bache Securities in Seoul, worries about "the investment willingness of Goldstar to survive as an electronics company in the more turbulent 1990s."

Koo Cha-kyung

The group's other pillar is petrochemicals, in which it is Korea's biggest. But Seoul is opening the petrochemical industry; overcapacity looms in a key profit producer.

The Koos brought in McKinsey & Co., which apparently recommended emphasizing services rather than manufacturing. But perhaps as important, it recommended pushing decision making further down the line. This means assorted Koos and Huhs would have to delegate power. Currently, power revolves around Chairman Koo Cha-kyung, 66, eldest son of the group's late founder; he has been turning control over to his own eldest son, Vice Chairman Koo Bon-moo, 45. The Koos and the Huhs are not following the McKinsey power-delegation proposal entirely, a decision they may come to regret.—**William Heuslein**

LEE FAMILY

Keeping up with Jones-san

The Lees' Samsung Group is Korea's biggest, best-regarded *chaebol*. It hires carefully, has a reputation for top pay and has the fewest labor problems of the major *chaebol*. But Samsung is striving to catch up with its Japanese competitors as it, like the rest of Korea, moves from labor-intensive businesses into high-tech, capital-intensive manufacturing. Among other things, Samsung has become one of the top four producers of memory chips in the world.

Samsung is seeking cheaper capital, which means looking overseas. It has had to borrow at around 16% in the local market, whereas Japanese competitors borrowed at 7%. As one source puts it, "That's killing them."

Samsung Electronics, one of the stars of the group, has long planned an international bond issue. But the Tokyo crash, Korean labor unrest, a coming Euromarket oversupply and knowledge that Korea plans to open up much more to direct investment in 1992 have weakened demand. Samsung's price now would not look good compared with rival Hyundai, which borrowed at very favorable terms in February. Rather than lose face, Samsung postponed its issue.

Running Samsung (Korean for "three stars") is late founder Lee Byung-chull's third son and handpicked successor, Chairman Lee Kun-hee, 48. Influenced by Japan, where he was educated, Lee has a lot of investment planned, especially in R&D. He is determined to make Samsung competitive with Japan. —**William Heuslein**

SHIN KYUK-HO, a.k.a. TAKEO SHIGEMITSU

Accumulate at leisure

Shin's sprawling $1 billion complex near the Olympic Stadium in suburban Seoul is a monument to the rise of the Korean consumer. It houses the world's largest indoor amusement park, plus hotels, a sports center, department stores and scores of shops.

Shin's Lotte Group starts construction this year on a new hotel and shopping complex in Pusan, Korea's second city. And he's awaiting approval on a 100-story hotel/leisure complex next to the mammoth Lotte World in Seoul. Like Henry Ford, Shin has run ahead of the trend to shorter work weeks, higher real wages and greater disposable income. Leisure- and consumer-oriented businesses bulk ever larger in Korea's economy.

Korean-born Shin, 67, started his estimated $7 billion to $8 billion fortune in Japan, where he uses his Japa-

H. Edward Kim

Lee Kun-hee

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A Flexible Framework.

The links that join two sides should not be rigid, but flexible, able to bend and shift as conditions

The Golden Gate Bridge,

photographed by Alan Ross.

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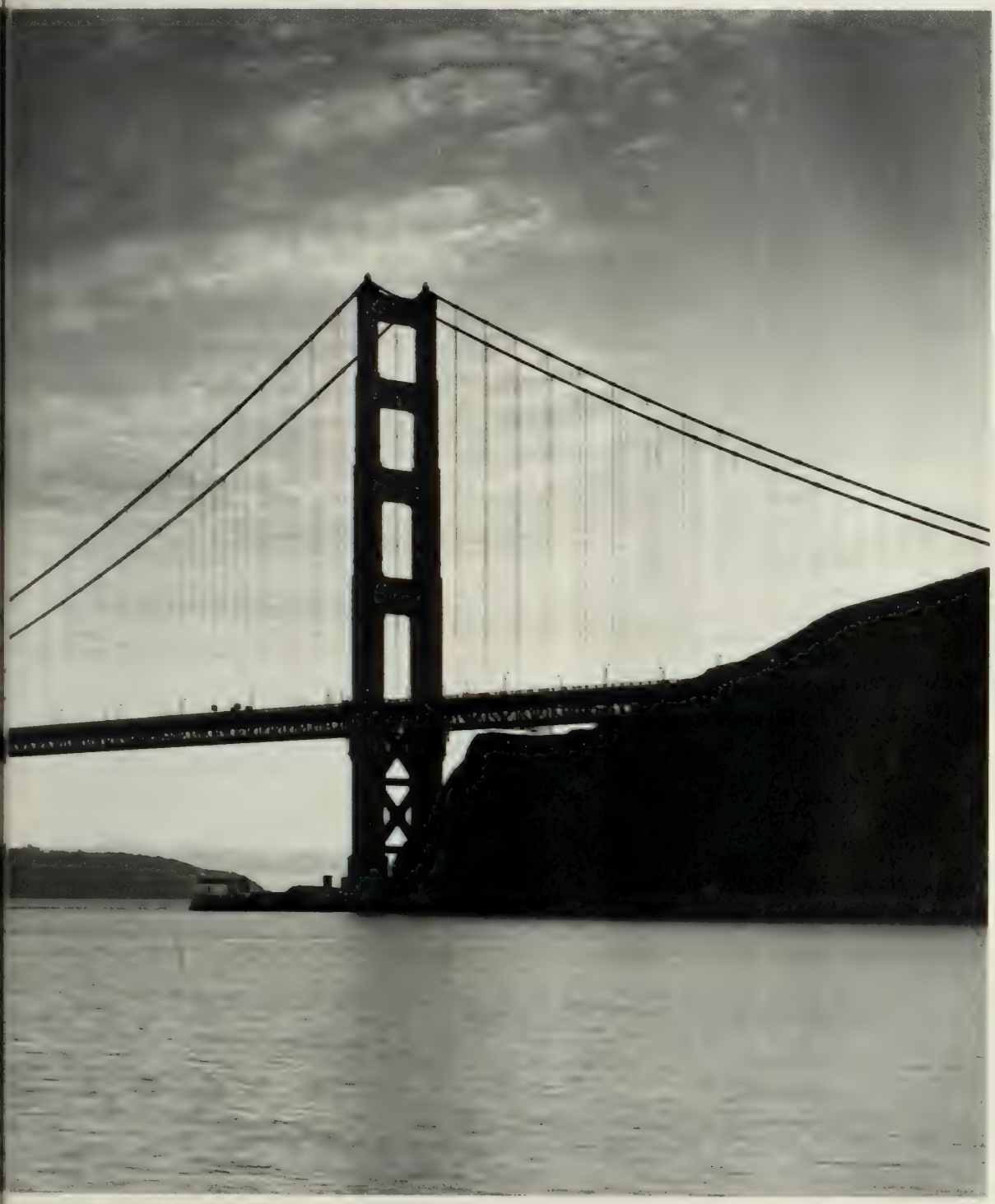


Bank of America

Shin Kyuk-ho Zaikai

nese name, Takeo Shigemitsu. An aspiring novelist turned engineering student, he built on his post-World War II success in chewing gum by expanding into confectioneries, and invested much of the profit in extensive real estate holdings. In 1967, after diplomatic relations between Japan and Korea were finally normalized, Shin launched a Korean version of his thriving Japanese empire.

Though now one of the ten largest Korean business groups, Lotte doesn't follow the pattern of the all-embracing *chaebol*. His consumer, petrochemical and real estate empire is a multibillion-dollar bet that Korea, too, will be a rich, first-world nation.—**William Heuslein**

HONG KONG

ROBERT MILLER

Duty free croppers

Just when Bob Miller and his partner Chuck Feeney thought they'd gotten the patent on duty free shopping success, the chemistry changed. The two American entrepreneurs are 40%-apiece owners of Duty Free Shoppers Group Ltd.; with over $2.5 billion in sales from around 160 duty free and duty paid airport and downtown stores in the U.S., the U.K. and the Pacific, it's the world's largest retailer of its kind. (Feeney is a U.S. citizen and appears in the Forbes Four Hundred; Miller holds a British/Hong Kong passport and lives in Hong Kong.) Their shrewd assessment of Japanese gift-buying psychology, backed by the strong yen and virtual monopoly concessions in prime locations, assured profit margins of up to 20% in the past.

Robert Miller

But lately the yen has dropped; this and reform of Japan's sales tax have narrowed the gap between overseas and domestic prices to Japanese shoppers. The competition's catching up, too. In 1989 DFS lost the bidding for the San Francisco airport concession to U.K.-based Allders International. In 1988, DFS grossly outbid competitors—by about $700 million—to hang on to Honolulu, the most prestigious duty free spot of all. Late last year DFS did a smaller but expensive repeat in Singapore. A longtime former employee of DFS says overbidding has reduced DFS' margins; he says they are under 10%.

Meanwhile, nations like Taiwan and Korea now want to operate their duty free concessions themselves. DFS has started going partners—in Hong Kong and Singapore, for instance—and is looking to become suppliers to the ones it can't own.

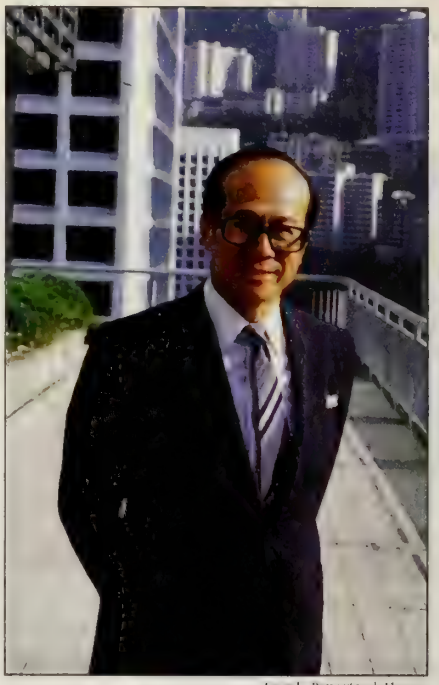
By now, Miller has built up big investments outside of DFS. A dapper 57, he lives flamboyantly with his wife and two daughters in a lavish home on Hong Kong Island, playing with investments in the PRC, real estate and banking in Hong Kong.—**Manjeet Kripalani**

LI KA-SHING

Doing the Hong Kong Shuffle

Li is planning for a future with—or without—Hong Kong. His publicly traded Hutchison Whampoa Ltd., one of the colony's oldest hongs (trading houses), plans to gradually reduce total investment in Hong Kong from the current 80% to 50%.

So maybe Li wasn't so disappointed when Hong Kong's cable TV monopoly went to competitor Sir Y.K. Pao—especially since Li's Hutchison is developing AsiaSat, a joint venture with Hong Kong Telecom, a subsidiary of the U.K.'s Cable & Wireless, and Citic (China International Trust & Investment Corp., Beijing's investment vehicle), due to launch this year and broadcast to all of Asia. The People's Republic may own a piece, but the satellite will be high overhead, not in Hong Kong.



Li Ka-shing Lincoln Potter/Stock House

Y.K. Pao and Li Ka-shing will probably bang heads again come 1995, when the telephone monopoly comes up for bid. Li's Hutchison Telecom already controls half of Hong Kong's cellular and paging market. But it also has paging interests in Australia.

Hutchison Whampoa, the first hong to be taken from *queillo* (foreign) hands, made Li Hong Kong's first Chinese taipan. The man who at 13 was peddling plastic toys and working the night shift now, at 62, controls a net worth of over $1.2 billion.

All of Hong Kong is watching its shrewdest businessman, who is investing personal assets (outside his public companies) overseas. Both sons are Canadian citizens. Stanford-educated Victor, 27, spends half his time in Vancouver, where he helped engineer the $275 million acquisition of 204 acres of the 1986 Expo site. Keep an eye on him.—**Manjeet Kripalani**

SIR YUE-KONG PAO AND FAMILY

Red sails in the sunset?

Last year Sir Yue-kong Pao sold his 10% holding in Britain's Standard Chartered banking group at a reported loss of about $100 million. He also sold his 38% stake in the regional airline Dragonair. He has turned over management of day-to-day operations at his empire to his two sons-in-law,

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MANI

Lincoln Potter Stock House

Sir Y.K. Pao

Peter Woo and Helmut Sohmen. Publicly owned World International and Wharf Holdings are looked after by Woo. Sohmen runs World-Wide Shipping, Pao's 200-vessel private shipping company, reputed to be the world's largest.

The U.S.-educated Woo, a former banker like his father-in-law, is on the move. He's building an office-retail complex on Hong Kong's so-called Times Square. And a consortium dominated by Wharf Holdings won the $700 million franchise for Hong Kong's first cable television network, over Li Ka-shing *(see above)*.

But Woo is hedging with investments elsewhere: In April Wharf paid $165 million for a plum property on Singapore's Orchard Road. Wharf manages 39 Omni Hotels on the East Coast of the U.S. and will soon sign a contract to manage 67 on the West Coast for Metropolitan Life. And last month Pao's World International moved the domicile of its Lane Crawford department store subsidiary to Bermuda, far away from the People's Republic of China.

In the meantime, the influential Helmut Sohmen closely watches the political waters under his World-Wide fleet.—**Manjeet Kripalani**

CHENG YU-TUNG

On the move

Ever since 43-year-old Henry Cheng became managing director of his father's company in January 1989, it seems like New World Development Co. has suddenly become a tiger. Last year debt jumped from a normally cautious $150 million to almost $1 billion. New World bought most of Ramada Inc., sold off some Hong Kong property but increased investment in Hong Kong rental units. It teamed up with Macao casino king Stanley Ho to buy into a TV venture. And in April the Chengs took Hong Kong by surprise by announcing that

South China Morning Post

Cheng Yu-tung

the family would take private the hotel subsidiary, New World Hotels.

Henry Cheng's farsighted father, Cheng Yu-tung, 64, fell off the billionaire list when Tiananmen shot down the price of his stock last year. But his stock came back. Like most Hong Kong tycoons, the Chengs are hedging their Hong Kong bets. The Ramada deal is one obvious example. The privatization decision is probably another: Five of New World's hotels are in Hong Kong, but six others are elsewhere in Southeast Asia, and by year-end seven will be in the People's Republic of China.

Other overseas assets include a 16% stake in Singapore's Suntec convention center, a share of the profits of the development of Vancouver's 1986 Expo site and a third of Houston-based Allright Auto, among the world's largest parking lot operators. In his personal life, the elder Cheng is reportedly a keen gambler who wagers on his own golf game—as well as on Hong Kong's future after 1997.—**Manjeet Kripalani**

KADOORIE FAMILY

Michael's turn?

The Kadoories are among Hong Kong's oldest families. Patriarch Lord Lawrence, 91, is as old as the company his father, Sir Elly, bought into in 1919, China Light & Power, one of Hong Kong's two electric utilities; the family's stake is worth over $800 million.

Through a 69% interest in Hongkong & Shanghai Hotels, the Kadoories—Lord Lawrence, brother Sir Horace, 87, and son Michael, 49—also own the Peninsula, one of the world's finest hotels. Unafraid of Beijing, they hold a contract to manage the deluxe Palace Hotel in that capital. But they're not taking any chances, either. There is already a Peninsula in Manila, one in New York, one due to open in Beverly Hills next year and another in Bangkok in 1993. They're actively looking for hotel sites in London, Tokyo and Ho Chi Minh City.

Frank Fischbeck Stock House

Lord Kadoorie

You can do business in Japan without shelling out a fortune.

For many companies, the biggest barrier to new markets has been the cost of business trips. Restaurants can be expensive, and even the smallest accommodations may carry oversized bills. Yet those willing to be a little adventurous will find that traveling comfortably in Japan doesn't require packing a suitcase full of yen.

Hop on the bus.

A $20 bus ride from Narita Airport may not strike you as a bargain, but compared to a $150 taxi, it is. The buses marked "Airport Limousine" stop at all the major hotels in Tokyo.

Sleep cheap.

Business hotels are a fairly new phenomenon. Catering primarily to Japanese businessmen, they're clean, functional, and conveniently located. Although vending machines replace amenities like room service, at $40 to $50 a night these hotels are a sound investment. Two major chains are the Tokyu Inn (tel. 03/406-0109) and the Washington (tel. 03/434-5211).

Food for naught.

It should come as no surprise that you'll save money eating where the locals eat. Good and reasonably priced restaurants can be found in department stores and the basements of office buildings. At lunch, ask for *teishoku*. It means special of the day, and includes rice, miso soup, salad, meat or fish, and dessert—all for around five dollars. *Ramenya* and *sobaya* (noodle shops) are perfect places for a quick and tasty meal.

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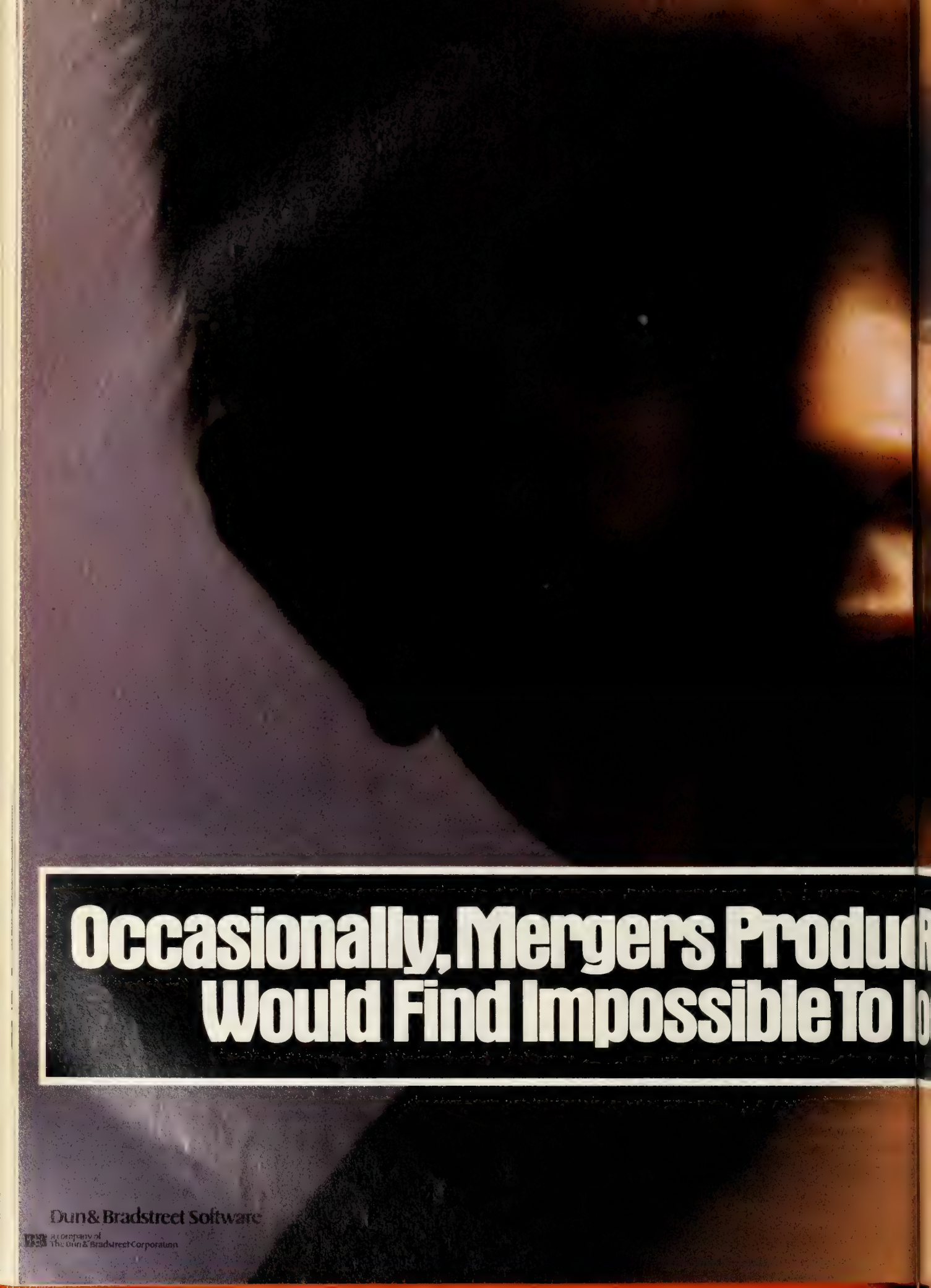
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D&B SOFTWARE

Another part of the family's billion-plus is invested in off-shore interests in carpets and textiles, and in financial services.

Hong Kong benefits from the philanthropy of this old family of Iraqi Jewish extraction, which started its business as brokers in Shanghai. A lot of people are rooting for Lord Lawrence's son Michael. He is still largely regarded as an untried quantity, hidden in the shadow of his elders, but then, he comes from exceptional stock.—**Manjeet Kripalani**

KWOK TAK-SENG AND SONS

Keeping his heart in Hong Kong

Another Hong Kong businessman returning to the list in the wake of Tiananmen Square is Kwok Tak-seng. His 48%-owned Sun Hung Kai Properties is as busy as ever expanding its successful New Town Plaza integrated retail, entertainment, office and residential complexes in Hong Kong's New Territories, where many middle-income earners live.

Kwok's family came from humble origins in Canton. He initially prospered as exclusive agent for postwar Japan's YKK zippers. Seeing the desperation of the thousands of refugees from the People's Republic who flooded Hong Kong in the 1950s, Kwok in the 1960s set up a property development partnership to build affordable housing for the refugees. Thus was born Sun Hung Kai, which now has the largest land bank in Hong Kong (34 million square feet).

Kwok is spreading his public company's risks—but in Hong Kong. It has a piece of Unimix, a local garment manufacturer, and 27% of Sir Y.K. Pao's Hong Kong cable TV franchise. Sun Hung Kai is also interested in bidding on the bridge to Lantau Island, where the new $16 billion airport is to be built.

South China Morning Post

Kwok Tak-seng

Kwok, 79, never learned English, but his three sons—Walter, Thomas and Raymond—are British-educated and in the business. Their private family portfolio includes $110 million worth of San Francisco property, just in case. But their main bet is still on Hong Kong, where they've accumulated a fortune worth at least $1.4 billion.—**Manjeet Kripalani**

SWIRE FAMILY

Staying put, too

The Swire brothers—Sir Adrian Swire, 58, and Sir John, 63—control London-based John Swire & Sons. It gets 70% of its income from Hong Kong, mostly through owning 27% of the publicly traded Swire Pacific, which has been increasing activity in Hong Kong.

In real estate, the Swires favor owning rental properties in the colony instead of selling properties and cashing out. If the Swires are right, they will be sitting on extremely valuable real estate post-1997.

Topham Image Works

Sir Adrian Swire

But the group's jewel is 51% of Hong Kong's publicly traded monopoly airline, Cathay Pacific, to which the Swires have diplomatically added 30% of Dragonair, a regional airline in which Beijing's investment arm, Citic, has a 20% holding. Through John Swire & Sons, the fifth generation also controls Coca-Cola bottling factories, Kentucky Fried Chicken franchises, 25% of the Australian cold storage market and highly profitable waste disposal companies.

The original John Swire was a small-time trader in Liverpool in the early 1800s; his son John moved to Shanghai, where his textile-import company created the foundation of the family's $1.1 billion-plus fortune. Brothers Adrian and John Swire cheer on Hong Kong. Note, however, that they live in the U.K., bet with the public's money and maintain a fall-back nest egg far beyond Beijing's reach.—**Manjeet Kripalani**

INDONESIA

WILLIAM SOERYADJAYA AND FAMILY

Indonesia's other billionaire

A darling of the booming Jakarta stock exchange this year is an automotive and resource group called PT Astra International. An excited crowd oversubscribed the initial offering 26 times. "It's part of the Soeryadjaya group," notes an analyst at Jardine Fleming in Jakarta.

That explains everything. Patriarch William Soeryadjaya boosted his business with the equivalent of $1,000 borrowed from President Suharto, then an army officer, 27 years ago. But this isn't just an example of Indonesian political grease. The Soeryadjayas are respected in Indonesia for running a thoroughly professional, entrepreneurial operation.

Like other Third World business powers, $1.8 billion (sales) Astra, 76% family controlled, is a grab bag: It has half the automotive market in Indonesia; plywood exports to the U.S. and Japan; the country's largest exporter of raw material for tire rubber (to Goodyear and Michelin); rubber plantations; assembly and sale of everything from tractors to copiers to PCs. There is a privately owned financial services outfit, Summa (assets: $1.4 billion). Run by William Soeryadjaya's eldest son, Edward, Summa is in trading, property and hotel development, oil exploration, equipment leasing and consumer finance, and has ambitious plans for investing in Vietnam *(see box, p. 142)*.

William Soeryadjaya is third-generation Indonesian Chinese. Back from studying in Amsterdam in 1948, he soon grew bored with his leather factory. After Suharto's 1966 overthrow of President Sukarno, Soeryadjaya rented an old GM truck-assembly plant in Jakarta, where he assembled and sold 800 GM trucks. He later joined with Toyota, then Honda. Then Xerox offered him another business, and Astra was on its way.

Described by his sons as a "positive thinker," Soeryadjaya, now 67, has turned management over to his chil-

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dren: Edward, 42, once an Astra Xerox salesman who later set up Summa; Edwin, 41, a graduate of the University of Southern California; Judith, 38, prospecting for hotel development projects; and Joyce, 39, who runs part of Summa operations from Hong Kong. His role now? Replies Edwin: "Working on projects that we consider too risky, making them viable and then selling them to us—at goodwill prices."—**Manjeet Kripalani**

LIEM SIOE LIONG

Big things from working for peanuts

Rumors fly that Indonesia's richest businessman, Liem Sioe Liong, believed to be worth over $2 billion, will soon retire. He has ostensibly handed over daily management of Liem Group to sons Anthony and Andree. Yet Liem, 74, still puts in a 12-hour day, then finds time for jogging and 11 grandchildren. He asserts firmly: "I still have full control."

Liem emigrated to Java at age 20 to work in the peanut oil trade. By the time Suharto took over in 1966, he had close enough ties with the new leader to be granted state monopolies, starting with the clove trade. Flour, cement and steel followed. Today, Liem is most famous as Suharto's *cukong*, or Chinese financier.

Liem and other Indonesian Chinese businessmen are widely resented for their economic clout. Presidential patronage has accounted for much of the group's success, but Suharto isn't getting younger (he's 69). Last year Indocement, Liem's mammoth cement producer, which had to be bailed out with a $200 million state investment, used the stock market boom in Jakarta to go public. The public, along with U.S., European and Japanese securities houses, were not terribly eager to oversubscribe this one. But thanks to a cement shortage in Southeast Asia, Indocement just made full subscription. The stock has since done better.

Apart from his Indonesian holdings, Liem owns land in California—"lots of land," says Johannes Kotjo, executive director of Liem Group—along with three private U.S. banks and a majority of Hong Kong-based international investment company First Pacific Co.

If the Liems choose to emigrate again, they won't go to work for peanuts.—**Manjeet Kripalani**

Liem Sioe Liong

MALAYSIA

ROBERT KUOK

Meet the "Sugar King"

Perhaps one of the most private billionaires in Southeast Asia is Robert Kuok, 67 and new to our list this year. Malaysia's "sugar king" is its best-known international businessman and wields heavy influence inside the country.

The Hong Kong-based Malaysian citizen presides over a hotels and trading empire stretching from Singapore to the People's Republic of China to Fiji. His holdings, estimated to be worth over $1 billion, include: his flagship company, Perlis Plantations in Malaysia (sugar, flour); the deluxe Shangri-La hotel chain; and substantial holdings in two major Hong Kong TV stations, TVB and TVE. From Hong Kong Kuok's private Kerry Trading runs a brisk trade in oil and rice; there are property development portfolios across the ASEAN region and shipping fleets. In the last year alone Kuok has invested at least $200 million to build four Shangri-Las in the Philippines, making him currently the second-largest property developer in that country.

Kuok's background is solidly middle class—his father was a merchant from China—but the senior Kuok provided his children a first-class education. Robert Kuok attended prestigious English College in his hometown in Johor state, and Raffles College in Singapore, where that country's prime minister, Lee Kuan Yew, was a contemporary. By age 26, he and brother Philip were running Kuok Brothers Sdn Bhd in Johor Baharu, trading in rice and sugar.

A series of coups on the commodities markets in the 1960s earned him the title of "sugar king"—and profits enough to expand into property and industry. In 1971 the first of the Shangri-Las opened in Singapore.

While Kuok is fiercely nationalistic—he is politically well connected in Malaysia and reputed to be close to the powerful sultan of Johor—he is also staunchly Chinese. Like many loyal overseas Chinese, he has turned toward the mother country after success in his adopted land. Kuok has five hotels already in China. (Two hotels are near Tiananmen Square; business has been slow.)

Kuok is currently interested in developing land around a reported $500 million project for a second bridge connecting Johor to Singapore. "Robert tends to be the dominant figure," says a senior executive of the Kuok Group in Hong Kong.

Dominant figures don't like to quit.—**Manjeet Kripalani**

SINGAPORE

LEE FAMILY

The blood runs thin

The Lee brothers—Lee Seng Wee, Lee Seng Tee and Lee Seng Gee—are the ultimate in Singapore's old money crowd. They control the venerable Oversea-Chinese Banking Corp., the third-largest in Singapore;

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the Lees have an estimated 30%, worth over $800 million. Singapore's richest family also has stakes in about a dozen Singapore blue chips. They are extremely influential and highly charitable. "The family believes they are investors rather than managers," says a Singapore analyst.

Also like old money—but unlike group founder Lee Kong Chian—the Lees are risk-averse. The founding Lee aggressively bought thousands of acres of rubber estates and vacant property in Malaysia and Singapore during the 1930s Depression and built the family's fortune—first rubber, and later palm oil and pineapple plantations now worth hundreds of millions. A lot is in Malaysia, where land is now becoming attractive to space-starved Singapore investors. The family bank is also a significant presence in Malaysia.

The third Lee generation is coming along. With it the Lees are producing doctors and journalists. Only one, Lee Seng Gee's son, is in the family business.—**Manjeet Kripalani**

Lee Seng Wee

Dilip Mehta/Contact

Perestroika east

Hong Kong's Cheng Yu-tung and the Kadoories, Indonesia's Soeryadjayas—what do these billionaires see in Ho Chi Minh City? Maybe Asia's next boomtown?

Bangkok, Kuala Lumpur and Jakarta are surging. But Saigon and Vietnam were held back by communism, decades of war and the U.S. trade embargo. Two years ago, farmers were allowed long-term leases on land. Within 18 months Vietnam was the third-largest rice exporter, after Thailand and the U.S. Foreigners could get 100% equity deals and repatriate profits; now there are 150 foreign joint ventures valued at $1 billion.

"Vietnam will be rebuilding from scratch," says Indonesia's Edward Soeryadjaya, who wants in "before the U.S. lifts the embargo and the multinationals come in." His Indovina Bank has been in Saigon since 1988; his Summa group plans a resort near Saigon and a second Vietnamese airline.

Aside from oil and gas, the largest deal would be Saigon's tallest building, a 15-story, $40 million, 600-room "grand luxe" hotel. The Chengs' New World group hopes to begin construction soon. The Kadoories also plan three-star hotels and office buildings.

Vietnam has 67 million people, compared, say, with France's 56 million. The Vietnamese are eager to improve their lot. English is much spoken. And Hanoi cuts deals now. Foreigners cannot buy land, but can lease it for up to 20 years. Infrastructure is nonexistent; almost everything, even cutlery, has to be imported. Vietnam is considered a bad risk by bankers, so investors must put in their own cash. But from such primitive conditions handsome rewards sometimes flow.—**Manjeet Kripalani**

Bill Wassman/Stock Market

Rex Hotel (left), City Hall (right); Ho Chi Minh City

KWEK/QUEK FAMILY

Face loss

In the 1960s the Kweks ran afoul of the government for tax evasion. Then, last year, Kwek Hong Png, 78, family patriarch and empire founder, was arrested on charges of abetting a relative in corrupt land transactions. A hearing is set for August.

This caused loss of face and of net worth. The group's City Development stock dropped by almost 25%; construction of the 63-story Republic Plaza office tower in downtown Singapore halted before it had even begun; and forget much-wanted banking licenses.

It hasn't, however, taken the family off the billionaire list. Combine their cousins the Queks in neighboring Malaysia (the "Q" was misspelled and stuck), with this hard-nosed Singapore family that made its money on the belief that land "yielded gold," and you get at least $1.2 billion.

Kwek Hong Png, who fled China in

Straits Times

Kwek Hong Png

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1928, and his lawyer son Leng Beng control a real estate, hotel and finance empire from Singapore. From Kuala Lumpur, Quek Leng Chan, the 47-year-old barrister from London's Middle Temple and Hong Png's nephew, runs a separate, fast-growing group. Last year Quek's 35%-held Dao Heng Holdings joined the Kuwait Investment Office and Taiwan's Shi Huang *(which see)* to acquire Hong Kong's big Hang Lung Bank.

So far each of the two families has stuck to its own turf. But Leng Chan's 1988 acquisition of First Capital Corp., a finance company in Singapore, could possibly start a little family competiton—or cooperation, perhaps?—**Manjeet Kripalani**

INDIA

BIRLA FAMILY

"In competition we thrive"

"Competition doesn't bother us," insists Aditya Birla, the 46-year-old MIT graduate who presides over the cream of the Birla companies. "In competition we thrive."

The family is soon to be put to the test. The Birlas have been longtime Congress Party supporters, able to obtain near-monopoly licenses in core industries. But the climate is changing. Although Rajiv Gandhi is out of office, many of his reform policies remain. The government is simplifying rules and easing restrictions. Upstart entrepreneurs like Abhey Oswal of Oswal-Agro, an agrochemicals producer, have recently wowed the investing public with big capital issues.

Terry Kirk/Financial Times

Aditya Birla

The Birlas, too, are tapping the new public markets. Last year Aditya Birla's Indo Gulf Fertiliser floated a $500 million issue, twice as large as Oswal's. Both were fully subscribed.

The Birlas enter the new era from commanding heights. The family's 200-plus companies (nearly 60 of them listed) span the economy—aluminum,* shipping, cotton, autos, chemicals, agro industries, paper, publishing. Group revenues in India are at least $3 billion. Aditya's dozen companies overseas, mostly chemicals and textiles in Southeast Asia, have sales of $1.2 billion.

Of the four male cousins in the current generation, Aditya was the favorite of his grandfather, group founder G.D. Birla. After G.D.'s death in 1983, the business was divided and Aditya wound up managing 45%. Reports of serious antagonism inside the family abound, but when cousin Ashok died in a plane crash earlier this year, Aditya took on the grooming of Ashok's son in business.—**Manjeet Kripalani**

AUSTRALIA

KERRY PACKER

Keeping in touch

It's been an up-and-down year for Down Under's only billionaire. Packer, 52, was partners with Jimmy Goldsmith and Jacob Rothschild in their $14 billion bid for B.A.T Industries. It failed. Back home, deflated millionaire Alan Bond defaulted on $155 million in preference shares held by Packer, who had sold his TV stations to Bond in 1987 for $840 million. Packer converted his shares into a majority of the common stock, a stake now worth some $30 million, and he controls his stations again.

On a happier note, Livonia, Mich.-based Valassis Inserts (1990 estimated revenues, $575 million), one of the three biggest U.S. coupon distributors, has recovered. Packer bought the profitable company for an estimated $400 million in 1986; price wars two years later had flattened sales and curtailed earnings.

Packer has very deep pockets. Mostly using an inherited 12.5% stake in Consolidated Press Holdings, which publishes 70% of Australia's magazines, he took the company private and has expanded into chemicals, natural resources (Muswellbrook Energy & Minerals), livestock and cotton, and engineering. In 1989 he bought a controlling 48% of conglomerate Australian National Industries. The company has since reduced debt by about 80%, and Packer's stock is up 16%, to some $350 million.

A hands-off manager, Packer picks top execs carefully. "If you got a billion dollars, why do you want to come in at 7 a.m.?" says one insider, adding: "He might be on a polo field all day, but he bloody well keeps in touch with key people." FORBES estimates he's got at least $1.5 billion to keep in touch about.—**Katherine Weisman**

Oliver Strewe/Wildlight

Kerry Packer

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JAPAN INDUSTRY

HIROSHI YAMAUCHI

The billionaire behind Nintendo

Lurking inside the Kyoto headquarters of $1.6 billion (sales) Nintendo Co. Ltd. is master gamesman Hiroshi Yamauchi, who has captured 90% of the U.S.' videogame market and 85% of Japan's. Exports are now around 70% of sales.

Nintendo was started by Yamauchi's great-grandfather in 1889 as a manufacturer of Japanese playing cards known as hanafuda. Hiroshi took over in 1949, at age 22. In the early 1970s he pioneered electronic toys in Japan. Just as the Atari generation of videogames was starting to collapse in 1983, Yamauchi introduced his now familiar, far superior Nintendo games. The rest is history. The company's stock rocketed. Hiroshi's 11.4% stake was recently worth $2 billion.

Zatkai

Hiroshi Yamauchi

Yamauchi, now 63, talked to FORBES but spoke mostly in generalities. "The software must be interesting," he said. Thanks, Hiroshi. But underlying his success is a carefully thought out system of tight controls to minimize the risks of being sandbagged by the fickle whims of videogame fans. All games, even if designed abroad, are manufactured within 20 minutes of headquarters, where production can be watched and secrets kept. Favorite industry lore tells of Nintendo engineers getting locked in at night behind electronic doors meant to keep games safe from prying eyes. Yamauchi rarely visits the U.S., but son-in-law Minoru Arakawa keeps close tabs from Seattle. "They have very good expense control," says S.G. Warburg's Chuck Goto.

The most important control of all is over sales. It was a flood of cheap, ill-designed games that killed the first videogame boom in the U.S. Hence Nintendo's proprietary "lockout" chip keeping unauthorized cartridges off its machines. Industry sources say the company hypes demand by limiting the supply of some games. Yamauchi: "We can't make such accurate predictions of what will sell."

Nintendo's sober president attributes his success to luck, not acumen. His daughter recalls hearing him talk about the company's less glorious past when she was growing up. But Yamauchi is looking ahead. Nintendo will start selling a 16-bit game machine in Japan in November (competitors already offer them; the familiar Nintendo is a much simpler 8-bit computer). The 16-bit games will come to the U.S. when sales of the older games start to slow. Yamauchi is also pushing into Europe with "Game Boy," a portable model already familiar to American parents.

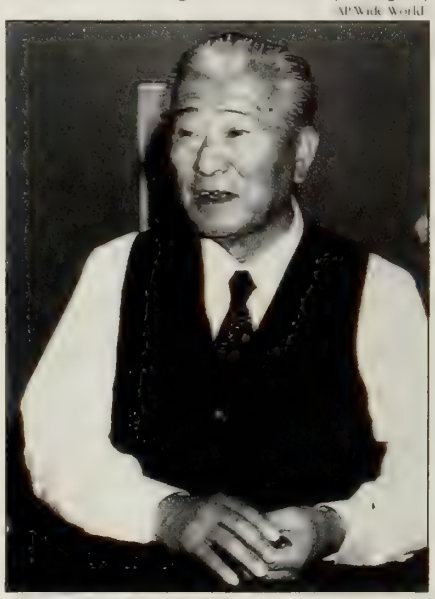
Beyond that lies the adult market. Nintendo started selling home banking, stock brokerage and home shopping services in Japan—using the familiar Nintendo game machine as a home terminal. A similar U.S. system is being discussed with AT&T and Fidelity Investment Services of Boston. If this catches fire, mom and dad may be making moves in the game of Life on Junior's set, and Yamauchi may one day be out of the toy business.—**Gale Eisenstodt**

SAITO FAMILY

Paper billionaire

Ryoei Saito knocked the art world on its ear in May by bidding over $160 million for van Gogh's "Portrait of Dr. Gachet" and Renoir's "Au Moulin de la Galette." He's a plunger in business, too. The 74-year-old paper magnate's family dominates Daishowa Paper Manufacturing Co. Founded by his father, Daishowa is Japan's second-largest paper manufacturer (after longtime rival Oji Paper) and its most aggressive acquirer of paper and pulp manufacturing facilities in the U.S. and in Canada.

AP/Wide World



Ryoei Saito

Binge buying got the company in trouble in the past and may be doing it again. In 1981 a rash of investments burdened the company with debt. Its main creditor, Sumitomo Bank, took control. To repay loans Saito was forced to sell off much of his art collection, golf courses and other treasured assets.

In 1983 Saito severed ties with Sumitomo and in 1985 fired a brother, Kikuzo, who reportedly had sided with the bank. At the time, Kikuzo told the Japanese press that Ryoei borrowed large sums of money from publicly held Daishowa to fund personal purchases. The company declines to comment.

Now, Daishowa's balance sheet is

starting to look messy again. The company's recent rash of acquisitions abroad and heavy capital investments at home are loading on fresh debt; debt now comes to about $2.5 billion, a 67% increase in two years. Last year the company earned $54 million on revenues of $2.4 billion. Meanwhile, the Japanese paper industry is suffering from overcapacity and higher raw materials costs, so any benefits will be long term. And unlike most publicly traded Japanese companies, Daishowa no longer has a main bank to see it through hard times.

The Saitos control around 20% of Daishowa, with other assets worth about $1 billion. Ryoei is honorary chairman, a brother is chairman and his eldest son is president. Seven family members sit on the board.—**Gale Eisenstodt**

AKIO MORITA

The acquirer who can say "yes"

Sony, the famous consumer electronics company Morita cofounded and still leads as chairman, raised a storm in America last fall when it bought Columbia Pictures for over $3 billion—the largest-ever Japanese takeover in America—after buying CBS Records for $2 billion in 1987.

Then Morita was all over the headlines again, accused of "America-bashing" as coauthor of a controversial book, *The Japan That Can Say "No."* The book, still a bestseller, was intended solely for circulation in Japan, and became a serious embarrassment for cosmopolitan Morita.

The CBS and Columbia acquisitions will transform Sony. The consumer electronics industry in the U.S. and Japan is maturing. But demand for the "software"—the sounds and images the hardware will reproduce—is expected to grow at 15% a year. Morita has big plans for Sony's new videocassette players and high-definition television sets. But his plans for the entertainment software are even more ambitious: Already the latter, according to Japan's Daiwa Research, accounts for about 25% of Sony's total sales. The Tokyo market likes this, and values "maturing" Sony high enough to make the Morita family worth $1.1 billion.—**Nobuko Hashimoto**

Dennis Bud Gray Picture Group

Akio Morita

MASATOSHI ITO

Japan rescuing America

When Ito-Yokado, the Japanese retail giant, was first getting into the convenience store business, its mentor was Dallas-based Southland Corp., operator of the familiar 7-Eleven chain. Now Southland is looking to Ito-Yokado to bail it out of an overleveraged buyout whose junk bonds are in default.

It looks like just another Japanese conquest in America. But it's also part of a trend to globalization in retailing. If Ito-Yokado does capture Southland, it will pick up more than the 6,918 U.S. and Canadian stores: Southland's worldwide chain reaches to Hong Kong, Taiwan, Australia and Europe. Ito-Yokado comes into the U.S., companies like Toys "R" Us try to get into Japan. But they will have to bull their way past Japan's notorious Large-Scale Retail Store Law.

At 66, Masatoshi Ito has proven himself a brilliant if cautious retailer in the home market. In Japan, it can take several years to do proper market research. Ito-Yokado staffers spend at least a year getting to know the needs of local people, even living in the area, before opening a new store. The group runs 138 Ito-Yokado supermarkets, 4,012 7-Elevens (58 in Hawaii) and the Denny's Japan restaurant chain. It reported a $390 million profit in the last fiscal year. The stock held by Ito and family is worth about $1.9 billion. Any American coming in better suppose these Japanese know what they're doing.—**Hiroko Asami**

Robert Wallis/LB Pictures

Masatoshi Ito

TAKENAKA FAMILY

Your grandchildren's home?

The Takenakas, leading builders in Japan since the 17th century, have a modest little plan to relieve Tokyo's overcrowding and brutal commutes: a single, giant building that could house 135,000 tenants.

"Sky City 1000" would be an entire city-size community in a structure 3,300 feet high. The mammoth structure and surrounding grounds would hold office space, housing, banks, schools, theaters, parks and hospitals. High-speed elevators and a monorail would carry people up and down or about the building within minutes. Newly designed systems would supply it with energy and water. Takenaka Corp., the family company, estimates it would take 14 years and $31 billion to build one. To test some of its science fiction ideas, the company is putting up a more familiar-size

building in Chiba this fall.

Meanwhile, Japan's premier builders—they built famous landmark Nagoya castle centuries ago—have plenty to keep them busy. Abroad, a resort hotel in Kauai island, Hawaii is going up; in Japan, a 37-story tower in Osaka, and a newly completed building in Hiroshima. All of which are expected to generate some $60 million to $100 million in yearly rents. Although Takenaka Corp. is an old-line family company, it introduced Western

Zaikai

Toichi Takenaka

building methods in Japan. Its 47-year-old President Toichi Takenaka got his M.B.A. at Michigan State University, and obviously, some new ideas. Which is how the Takenaka family comes to be worth an estimated $3.9 billion.—**Nobuko Hashimoto**

MURATA FAMILY

Cycle, countercycle

Well known in the U.S. market for its $500-and-under fax machines, Murata Machinery is still relatively obscure at home, even though this old-line textile machine maker from Kyoto began making facsimile machines in 1973. It was the idea of President Junichi Murata, now 54, who wanted a product with a different business cycle.

Today, however, Murata is encountering severe price-cutting in the U.S. In Japan it is struggling to compete with giants like Sharp, Ricoh and Canon, which are also producing low-priced faxes. To stay competitive, manufacturers have to upgrade products and move on to the next generation—so-called G4's that produce a page in four seconds instead of a minute, with sharper images, and on plain rather than thermal paper.

Europe still remains a promising new market, and faxes are owned by only about 2% of Japanese house-

Junichi Murata

Robert Wallis/TB Pictures

holds, where retailers say they hope one day to make a fax as commonplace as a phone. But it's still unclear what survival strategies the Murata family will adopt in faxes.

Ironically, Murata's old business, textile machinery, is doing well. Altogether, private Murata earned $82.6 million last year, up from $49.3 million the year before; at current Japanese valuations, it is worth an estimated $4.6 billion.—**Nobuko Hashimoto**

KANICHIRO ISHIBASHI

Indigestion

You know Bridgestone is worried: It sent Chairman Teiji Eguchi to Akron, Ohio in January for an indefinite stay to resolve problems there, instead of fielding all those panicky late-night phone calls to Tokyo.

When Kanichiro Ishibashi, whose family founded Bridgestone and still holds at least 12%, huddled with top Bridgestone executives to discuss the purchase of Firestone Tire & Rubber two years ago, he probably never imagined the problems that were in store. Bridgestone's 1989 earnings declined 76%, to $64 million on $11 billion in revenues.

The big reason: Fixing Firestone's inefficient plants is turning out to be very expensive and time-consuming. General Motors, once a major customer of Firestone but not famous for its love of things Japanese, drastically reduced tire orders. Anyway, the U.S. tire industry is suffering from overcapacity and price wars. Bridgestone recently offered early retirement to 3,400 of its U.S. workers. Analysts say plant closings are a possibility.

The company predicts profits will rebound to $130 million this year. Japanese investors are evidently willing to accept this very optimistic view. They price the stock only a hair below where it was last year. The Ishibashi family's stock and real estate holdings are still worth over $1 billion—for now.—**Gale Eisenstodt**

MURAYAMA FAMILY

Why the newspapers read alike

In Japan, government and business news frequently flows through chummy little groups called *kisha* clubs—a sort of organized symbiosis between the reporter and the institution he covers. The institution supplies a room for reporters to work from

Toshi Matsumoto/Sygma

Kanichiro Ishibashi

Before now, the distinctions between turbine aircraft were as inescapable as the laws of nature. Jets were fast and thirsty. While turboprops were sedate but, by comparison, only sipped at fuel.

Today, however, there's an alternative that provides the best of both. And then some. The remarkable new Piaggio Avanti P180.

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and the information they are expected to report. Journalists on rival papers share the material.

The bureaucrats, politicians or businessmen have guaranteed access to journalist-club members who develop a certain loyalty to their sponsors. Thus, the Japanese saying, "Nobody's scoop is everybody's happiness."

The record of *Asahi Shimbun*, Japan's second-largest paper, is, to be sure, a bit better than most. The Recruit scandal that toppled several of Japan's top politicians was exposed by an *Asahi* reporter. But most of *Asahi*'s reporting is rather familiar to readers of other Japanese newspapers.

However tame the Japanese system by American standards, it surely doesn't lack for profits. *Asahi* does well enough to keep the Murayama family, with its 45% of the paper's stock, worth at least $1 billion.

Michiko Murayama and Junichi Ueno, descendants of the company's founders, jointly hold the position of "owner," but it is strictly an honorific title. In 1963, when the Murayamas refused to confirm a managing director who opposed family plans, the employees pooled their stockholdings with the Uenos'. The Murayamas, these days, seem to have learned their place. Alas, so have Japan's reporters.—**Gale Eisenstodt**

KEIZO SAJI AND FAMILY

Now they're even buying our water

His beer may be flat, but Keizo Saji's Japanese whiskey and American branch water are going gangbusters. Last year's revision of the Japanese Liquor Tax Act looks to be a bonanza to Suntory, Japan's biggest distiller, of which the Saji clan owns nearly 90%. Taxes on the premium liquors that make up 50% of Suntory's whiskey sales were slashed. One result: Premium sales jumped 30% last year.

But the beer business has apparently leveled off. By contrast, its nonalcoholic beverages and food operations are growing well. In the U.S., Suntory has moved aggressively into the most nonalcoholic beverage of all: water. Saji bought New Orleans-based Kentwood Spring Inc., in 1985. All told, Suntory has invested over $190 million to acquire seven mineral water companies. Now Suntory Water Group is the largest bottled-water enterprise on the East Coast and third in the nation, with a 6% share of the U.S. market.

Having added branch water to the whiskey and beer, and taken Suntory global, Keizo Saji finally handed the presidency to nephew Shinichiro Torii in March and kicked himself upstairs to chairman. Torii, 52, is the son of the eldest son of Suntory's founder. Where will the inheritor take the company? One hint: His favorite drink is beer.—**Hiroko Asami**

Keizo Saji

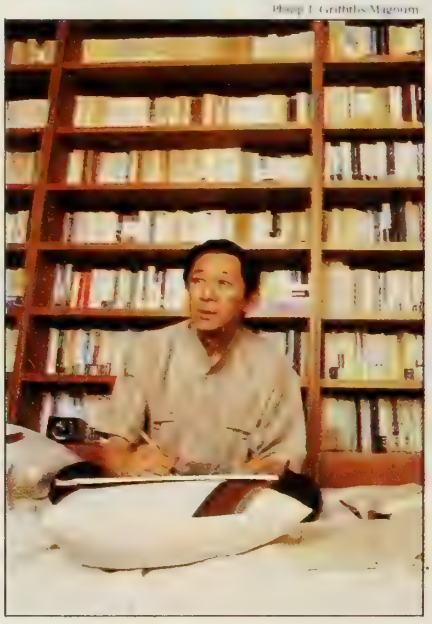
Philip J. Griffiths/Magnum

SEIJI TSUTSUMI

Walk abroad, carry a good image

Seiji Tsutsumi, 63, continues to expand his foreign holdings. Last July his Saison Group bought a 10% stake in Voyager Travel Holdings, the company that controls Virgin Atlantic Airways. The tie-up, revealed only recently, is just one part of Tsutsumi's vision of creating a global travel services network. In 1988 he bought the big Inter-Continental Hotels Corp., later selling 40% to Scandinavian Air.

Philip J. Griffiths/Magnum



Seiji Tsutsumi

Back home he seems mainly to tinker with the 100-plus-company group he has built. It is Tsutsumi's vision that unifies the group's far-flung activities. Day-to-day operations are generally left to others, even at the major Seibu Department Store, the first company in his business empire.

His half-brother, Yoshiaki *(which see)*, who has come under sharp criticism in the Japanese press, could learn a lot from Seiji, who's carefully cultivated a positive public image. "He likes to be known as a poet and a novelist," says an acquaintance. Seiji is a patron of the arts both in Japan and overseas. He also likes to convey the impression he's a democratic manager.

But it's unlikely Yoshiaki will call on Seiji for advice. Their father left the bulk of his wealth to Yoshiaki, the son of a mistress. Little beyond the Seibu Department Store went to Seiji, the legitimate son. The half-brothers are said to have been feuding for years.—**Gale Eisenstodt**

MATSUSHITA FAMILY

A family affair

When the founder of Matsushita Electric Industrial, Konosuke Matsushita, died in April of last year at the age of 94, he left behind one of the largest visible estates in recent Japanese history: $1.6 billion exposed to the taxman, four times the previ-

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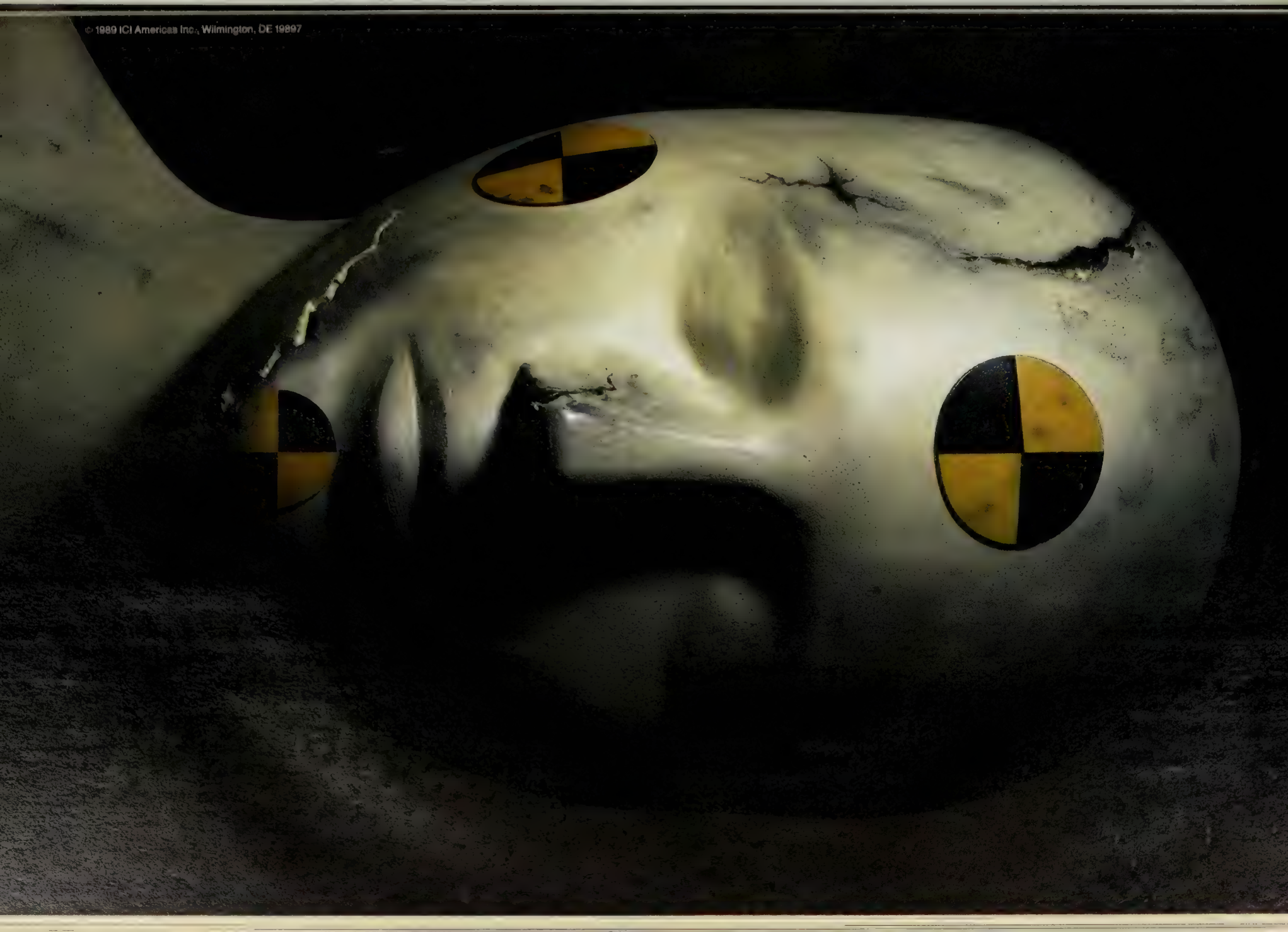
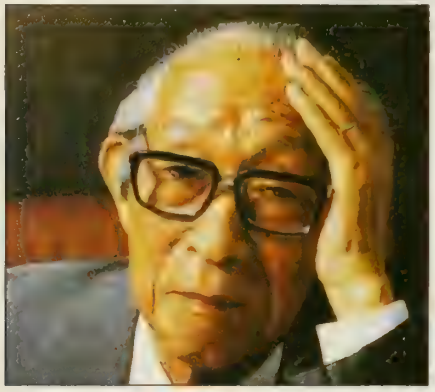


ous record. Nearly all was stock in Matsushita Group companies.

Almost half went to his 98-year-old widow, Mumeno. The rest was divided among his daughter, Sachiko, who got $290 million; her husband, Masaharu, who is also chairman of Matsushita Electric Industrial, $290 million; and four other children, apparently by mistresses, who shared a total of $210 million. Mumeno, as a spouse, was exempted from inheritance tax, while the others paid a tax of up to 70%. Even so, the net visible inheritance totals some $1 billion.

Meanwhile the group continues to do well, particularly in communications and industrial equipment—earnings were up 10% in the year ended March 1990. Besides Chairman



Konosuke Matsushita

Masaharu, another member of the family has been moving up the corporate ladder, the founder's grandson Masayuki. At 44, Masayuki is a managing director and former head of the public relations department. Masayuki recalls his grandfather as "a very good listener, never preachy," who, though very busy, made time to listen to Masayuki's campus friends when they stopped by. It is too early to know how much the student may have learned.—**Nobuko Hashimoto**

KENKICHI NAKAJIMA

Psst—hot stock?

"I'd say at least 100 pachinko parlor owners are now considering making a public offering," says Kenkichi Nakajima, 70, founder and president of Heiwa, Japan's largest maker of pachinko machines. Small wonder. Since Heiwa went on Tokyo's over-the-counter market in 1988, it has climbed to a price/earnings multiple of 156, making the Nakajima family's 86% stake worth $8.4 billion.

Pachinko, a game similar to pinball, is big business in Japan: Some 15,000

Kenkichi Nakajima

Robert Wallis/J.B. Pictures

parlors with nearly 4 million machines take in $95 billion a year in receipts. Heiwa has about 30% of the machine market and employs 90 game developers.

But pachinko parlors aren't just good, clean fun. Prizes handed out at parlors, typically cigarettes, toys or other trinkets, can be exchanged for cash at nearby storefronts. Besides the gambling stigma, some parlors reportedly make political contributions, evade taxes and may have ties with Japan's criminal underworld.

Nakajima is a Mr. Clean. He says he shuns political contributions and supports a system that would make tax evasion less likely. NTT, Mitsubishi and others have formed a company to introduce prepaid magnetic cards to use instead of cash for the steel balls one buys to play the game. That would help police pachinko parlors.

"Credit cards and telephone cards are now popular in Japan, and pachinko should not be left behind in joining this trend," says Nakajima of the idea.—**Gale Eisenstodt**

HISASHI ISHII

Do as he says? Or as he does?

Tachibana Securities, the well-known brokerage house Ishii founded, has a reputation among brokers for strong research. So Ishii made headlines recently when he issued a scary forecast of Japan's next decade: Land prices will fall to a third or a tenth of their present levels and the nation's GNP will collapse along with the land. The main reason? The birth rate has fallen drastically. The coming severe labor shortage will raise wage levels, making Japanese companies less competitive. Moreover, higher-paid people will work less and spend more, thus lowering the savings rate and productivity that have supported Japan's high growth.

Yet this spring, while Ishii was talking stocks down, he wasn't taking his own advice. He issued new stock privately to expand still private Tachibana. He also upgraded it to a so-called *sogoshoken,* which means it can underwrite securities like the bigger

Zaikai

Hisashi Ishii

houses. To qualify, he had to reduce the Ishii family interest from 81% to under 50%. He now holds some 49% of the firm, a stake worth an estimated $1.5 billion, down from $2.6 billion last year. At 67 Ishii has made a sizable bet with his family's net worth

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that Japan will continue to be a big, profitable market for newly underwritten securities. Do as he says? Or as he does?—**Nobuko Hashimoto**

SHIGEKUNI KAWAMURA

The easy way to buy companies

While many cash-rich Japanese companies are just discovering the benefits of M&A, Shigekuni, 61, who heads Dainippon Ink & Chemicals, is an old hand. Since 1975 the brash Kawamura has spent about $1.3 billion, acquiring 27 foreign companies in Dainippon's main businesses of printing ink and resins. Major U.S. purchases have been Kohl and Madden Printing Ink Corp., the graphic art division of Sun Chemical and Reichhold Chemicals.

In the past two years he's picked up the pace, purchasing eight more ink suppliers, including O&R of Holland and Prisma of Spain, and seven resin companies.

Kawamura thinks takeovers are easy: "I have a long-term strategy and entrust management to the locals. That's why our acquisitions are welcomed by them," he says.

Born in China and raised in California, Kawamura has always had an international outlook. Near term, he plans to acquire more resin companies in Europe—to be ready for 1992.

Shigekuni has another side: In May the Kawamura Memorial Museum of Art opened in Sakura, with more than 800 Impressionist, modern and Japanese artworks from three generations of collecting by the Kawamura family. This pays off, too. Including some $130 million of art, 17% of DIC, and some real estate holdings in Tokyo, the Kawamuras are worth at least $1.2 billion.—**Hiroko Katayama**

Bill Bernstein

Shigekuni Kawamura

RYOICHI JINNAI

Exploring overseas

Promise, the company Ryoichi Jinnai founded, is the third-largest Japanese consumer finance company. Like other finance companies, it has an image problem. On Japanese TV you can still see a drama of a hapless debtor owing money to a *sarakin*, or money lender, at over 100% interest and unable to pay.

This is TV, of course, and it is a story of the past. Ever since the government cracked down in the early 1980s, consumer finance companies have been cleaning up their acts. Promise's top rate is now 29.2%, the same as Takefuji's and Acom's *(see Takei; Kinoshita)*.

In part to get away from what a spokesman calls the "loan-shark image," Promise is dabbling in such new businesses as video rentals and coffee shops, and exploring opportunities overseas. It is building a golf course in Paris and recently took a stake in a Florida hotel.

Jinnai would like to take the company public. He could get access to lower-cost financing to help Promise compete against the banks and the installment credit companies that have gotten into the business. Jinnai recently sold some shares to its main creditors, including the Long-Term Credit Bank and Sumitomo Trust & Banking Co. But balance sheets are sometimes a bit easier to spruce up than images.—**Gale Eisenstodt**

YASUO TAKEI

Image enhancement

When Yasuo Takei was looking for a new president for Takefuji, the $4 billion (assets) consumer-finance company he founded, he called on his friend, the distinguished chairman of Nomura Securities. The chairman sent over a veteran manager of Nomura's overseas division and former chairman of Nomura Finance.

Zinkai

Yasuo Takei

Takei is polishing Takefuji's image. It must still cope with popular memories of the days when consumer finance companies, formerly known as *sarakin*, legally charged interest rates over 100%. Outsiders with strong credentials can help boost his company's reputation. Another big plus:. The new Nomura man has international experience and background in developing new businesses.

Competition in Japan's consumer finance industry continues to heat up, as Japan's commercial banks step up their consumer lending. Installment credit companies *(shinpan)* are also tough rivals. Takei, too, has cut his maximum rate, from 32.85% last year. And the company is introducing "specials," such as "marriage loans" at 17.5%, for Japanese lovers unable to come up with the heaps of cash required to stage a proper wedding. That, too, is meant to help the image.—**Gale Eisenstodt**

KINOSHITA FAMILY

Borrow low, lend high

Money lending has always been lucrative. Particularly when the loans can be financed with low-cost funds from a big bank. That's one big reason $2.8 billion (assets) Acom Co., Ltd., Japan's second-largest consumer

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finance company, got to where it is. Back in the 1960s, Masao Kinoshita saw the potential in lending money when he owned a small chain of pawnshops. He started the first major *sarakin*—a company lending money to consumers who lacked bank-quality collateral.

Kinoshita developed a tight relationship with Mitsubishi Trust at a time when Japan's big banks normally didn't associate with *sarakin*. A 1978 story revealing the Mitsubishi connection created a major sensation. The government started to crack down on the business.

"We realized we had to change the way we were doing business," recalls Yoshiki Okada, a director. The company opened an office in Switzerland to obtain low-cost financing. So the Kinoshitas began diversifying into such businesses as furniture rental, and are looking at real estate overseas. Masao's son, Kyosuke, 50, is now president of the company.

Acom still does much of its borrowing from Mitsubishi Trust. Under the government's watchful eye, the company's top lending rate is now down. But business is good enough to make the Kinoshita family's 58% interest in Acom worth an estimated $1.3 billion.—**Gale Eisenstodt**

TERAMACHI FAMILY

How to channel frustration

Another new face among the billionaires, Hiroshi Teramachi, at 66 president of $430 million (sales) THK Co., Ltd., is a success story twice over. His company went public on Japan's o-t-c market last November. At current prices the Teramachi clan's shares are worth around $1.2 billion.

This is Teramachi's second success. In 1963 he took public Nippon Thompson, a company he started in the 1950s to produce a product he invented: the needle roller bearing, which could rotate at much higher speeds than existing products. Then the young entrepreneur blew it. In 1969 he tried to help an employee recover losses in the commodities market by using Nippon Thompson money to speculate in soybeans and silk. Outside stockholders forced him to sell his shareholdings and other personal assets to repay the losses. In 1970 he resigned.

"I channeled all my frustration into building a new company," he told FORBES. In 1971 he started what is now THK.

Hiroshi Teramachi

Zaikin

Teramachi, who has around 400 patents to his name, based THK on another new bearing he designed—the linear motion guide, now widely used in industrial robots and semiconductor chip production. Japan's conservative machine tool makers were leery. So Teramachi knocked on U.S. doors. He used his success in the U.S. to win customers back home.

Over the past four years the company's sales have more than doubled, to $430 million, and profits have more than tripled, to $60 million. Teramachi's THK now has over 70% of the business. Exports are currently only 10% of sales but THK is starting to push overseas again.

Teramachi still plays the market, but now focuses on shares of other bearing companies. Teramachi says he wants to establish "order"—bearings companies compete too much on price, he says. But industry insiders still recall his freewheeling past and they suspect that he is really an opportunist who just wants to make money.—**Gale Eisenstodt**

MASAHITO OTSUKA AND FAMILY

Make a luxury seem a necessity

Founder Masahito Otsuka, 73, may be retired these days, but his sons sure aren't. Akihiko, 52, has been running things for a decade, and has expanded the huge (1989 sales: $1.9 billion) Otsuka Pharmaceutical by pushing nutrition products on the health-conscious Japanese.

Alongside a stream of the ethical and over-the-counter drugs the group was founded on, the Otsukas last year sold more than 1 billion bottles of Oronamin-C, a carbonated nutritional drink containing vitamin C and amino acids. That's worth about $660 million at retail. Their bestseller—1.1 billion cans last year—is Pocari, a Gatorade-style drink for athletic types that resupplies body salts lost through sweat. Its retail sales reached $860 million last year.

Recently they started selling New Calorie Mate, whose ads claim two cans a day supply all needed vitamins. At wholesale, such items fetched 55% of Otsuka's sales last year.

In the beginning, old Masahito bet the farm on mass-producing injectable drugs suitable for the injured and

Robert Wallis

Masahito Otsuka

wounded at the outbreak of the Korean War. Once established, he concentrated his efforts on lifesaving medicines. But his son has built tidy profits with health products that are marketed as necessities.

So today Masahito plays leisurely games of golf in his hometown on Japan's Shikoku island, and counts his family's $2.7-billion-plus net worth. While swigging lots of Oronamin-C and Pocari.—**Hiroko Asami**

KIYOSHI SAGAWA

Courier

Kiyoshi Sagawa, founder of a privately held package delivery firm, Sagawa Express Group, is a tough taskmaster. "The number of administrators that feel they can get away without working is on the rise (and most of these people are incompetent)," he growls in the February issue of the company newsletter. Also, the Ministry of Transportation is after Sagawa for violating labor laws, say-

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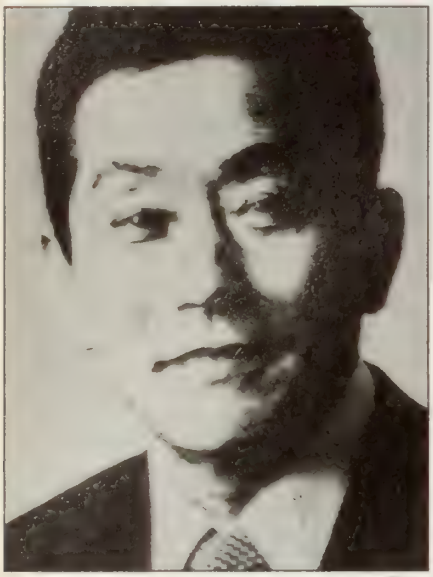

Kiyoshi Sagawa Zuma

ing he makes drivers work excessive hours. The company says it is correcting that problem.

Potentially more serious were tax problems alluded to in a 1989 book by Yosuke Hamada, a disgruntled ex-employee fired for not meeting sales targets. Hamada claims that Seiwa Shoji, a holding company, siphoned money from other Sagawa companies, making it difficult to trace and tax profits. Government sources tell a similar tale, and twice the tax office has gone after Sagawa for underreporting. A Sagawa spokesman says that the company has never evaded taxes, although there could have been inadvertent errors owing to too rapid growth. In April Seiwa Shoji was absorbed into a group company.

Despite these hitches, Sagawa, 68, is doing pretty well for himself. His company has around 70% of Japan's corporate delivery business. He recently started a venture with DHL to expand international delivery operations. Look out, world.—**Gale Eisenstodt**

TADAO YOSHIDA AND FAMILY

Centralize? Or decentralize?

Tadao Yoshida built his $3.7 billion (sales) zipper and building materials company, YKK, on the principle of decentralization. At 81, he is in poor health, and son Tadahiro, a Northwestern University M.B.A., is tackling the difficult task of change.

The big problem is aluminum building materials, now some 70% of sales. Tadao, who started with the more profitable zippers, never gave the newer business the attention it merited. He set it up with the passion for minimizing managers and maximizing local sales autonomy that worked so well in the international zipper market. Unfortunately the regional building materials sales offices in Japan did not coordinate well with the factories; sudden surges in orders could sometimes not be filled. The biggest Japanese maker of aluminum siding, doors and windows for houses until 1984, YKK has since been losing market share.

Son Tadahiro is introducing a degree of centralized oversight. Nine distribution centers consolidate building materials inventories. As for zippers, while his father was a firm believer in

Robert Wallis/HB Pictures

Tadahiro Yoshida

local production, Tadahiro has set up a factory in low-cost Indonesia. Senior had all production machinery made in-house; Junior will shop outside if it's quicker or cheaper. The younger Yoshida clearly understands one very basic business principle: You can't run a business with your strategy carved in stone.—**Gale Eisenstodt**

HATTORI FAMILY

Getting it together

The Hattori family has a proud heritage in their top-quality Hattori Seiko watches and clocks. But they have seen rival Citizen take over the number one position in Japan's watch industry.

For one thing, Hattori didn't adjust production and inventory quickly enough when the yen unexpectedly strengthened a few years ago. Only in the last year did it manage to work down excess inventories. And though

Reijiro Hattori Pamela Fernuik

Seiko's production is handled by two family-controlled companies, they've been managed by outsiders following the deaths of two Hattori family members. Lack of coordination between these two producers has been harmful, observers say, while Citizen has benefited from directly controlling its own production.

But Hattori Seiko finally seems to be getting its act together. It's choosing to emphasize luxury brands and jewel-bedecked watches, which are selling well. One new model: a lady's watch designed by a famous Japanese designer, Jun Ashida.

The company is also increasing its jewelry import business and is strengthening its new lines of plastic eyeglasses. The Hattoris, led by 69-year-old Chairman Reijiro, the founder's grandson, together own shares worth about $3.5 billion in Seiko group companies. An amount worth watching over.—**Nobuko Hashimoto**

UEHARA FAMILY

Put the money where it counts

The Ueharas' well-known Taisho Pharmaceutical grew on an army of detail men, who today still sell directly to Japan's 60,000 pharmacies. Now the Ueharas are augmenting them with Taisho's new computer sales network, which already plugs in 3,700 pharmacies and will soon have 5,000. It will let Taisho do fast, comprehensive market research, and even monitor competitors' sales.

Small wonder Taisho is the leader in the ever more competitive over-the-counter drug market (it has a 20% share), with about $800 million in

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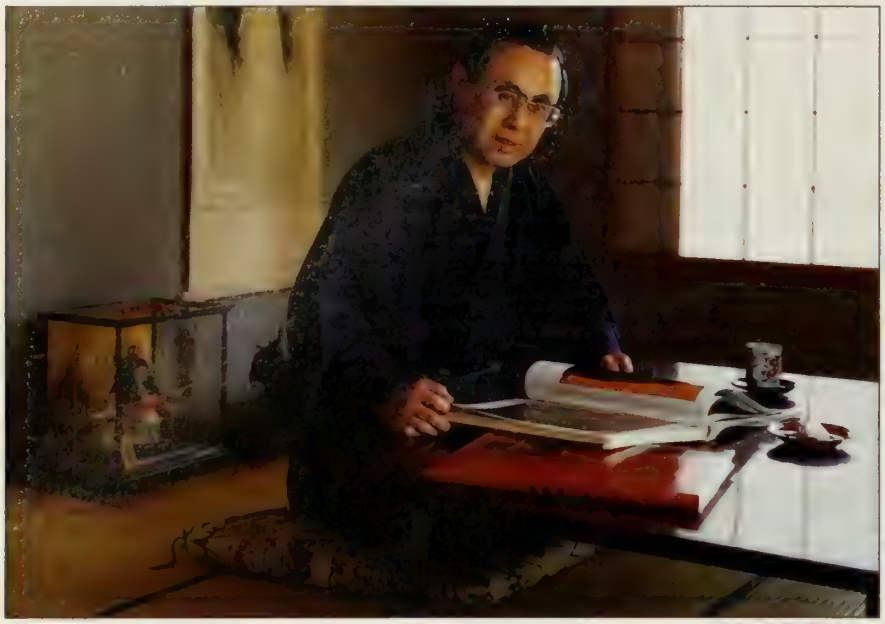

Robert Wallis/FB Pictures

Shoji Uehara

sales. Bestselling products include nutritional tonics (big in Japan; *see Otsuka*), Pabron cold remedy, and Taisho Ichoyaku digestive agents.

But don't overlook prescription drugs—16% of Taisho sales and increasingly important. Merrill Lynch Tokyo predicts 30% to 50% growth from such promising drugs as Clathromycin, a new antibiotic Taisho has licensed to Abbott Labs for sale outside Japan. It may come on the market by year's end, and Taisho forecasts $60 million annual sales just in Japan.

Chairman of Taisho is Shoji Uehara, 62. President, at 49, is Akira Uehara. Akira has three things going for him. First, he is Shoji's son-in-law. Next, he is the nephew of the founder's wife. And he's the inspiration behind the computerizing, having joined the company in 1977 after 11 years at NEC, the electronics firm. Evidently Akira Uehara sees that big money is to be made not only from discovering pharmaceuticals but from developing better ways to distribute them.—**Hiroko Asami**

HISAKICHI YAMAGUCHI

The price was fame

Hisakichi Yamaguchi must have been disappointed. Last year the founder of $1.8 billion (sales) Daiwa Can acted as intermediary when the founder of South Korea's giant Hyundai went to North Korea with plans to build a resort hotel—a resort Yamaguchi apparently had himself proposed to Kim Il Sung years ago. All seemed to go swimmingly. But in May it was reported that North Korea abruptly canceled the deal.

Yamaguchi paid a price for his futile efforts: For a moment the spotlight was turned on this man who shuns the press. He was born in what is now North Korea, and people close to him

Kyodo

Hisakichi Yamaguchi

say the Kim Il Sung connection was formed primarily because "everybody needs to go home." Yamaguchi, 79, got into canmaking in 1950. A friendship with a chairman of Nippon Steel got him the financial support. A tie with American Can Co. got him the key equipment.

Today it is Daiwa Can that exports production machinery. The company also has about 30% of the domestic can market, number two behind Toyo Seikan. Yamaguchi controls eight interrelated companies, including operations in Taiwan and a joint venture with Ryoei Saito's Daishowa *(see Saito, p. 148)* to make paper cups.

Yamaguchi is still active in day-to-day management. Sources who know him well say he is demanding and likes to keep close tabs on things. Last year profits were up 14%, to $149 million on sales of $1.8 billion. His eldest son is in the business: Hisakazu Yamaguchi is a director of a machine tool maker 50% owned through a holding company.—**Gale Eisenstodt**

JAPAN REAL ESTATE

YOSHIAKI TSUTSUMI

A job for Dale Carnegie

How much glory is there in being the richest businessman in the world? Not much. You're Yoshiaki Tsutsumi—and you're the target of increasing criticism in the Japanese press these days.

Seems the public has noticed that Kokudo Keikaku, Tsutsumi's 40% directly owned holding company for his vast railway and real estate empire, doesn't pay much corporate tax. The interest on debt used to expand its business in ski slopes, hotels and golf courses virtually wipes out profits. So there's no need to pay taxes, Tsutsumi earnestly explained in interviews. Lately, in a tack to windward of sorts, he's indicated in the press that he "could slow the pace of expansion. Then the company would be more profitable and pay more in taxes."

Meanwhile, Tsutsumi recently blew a chance to capitalize on what are conceded even by critics to be his good managerial skills. Elected last August to head the Japanese Olympic Committee, he bowed out in May. He

Kyodo

Yoshiaki Tsutsumi

had been criticized for trying to turn things to his own advantage: He wanted to lure the 1998 winter games to an area near resorts his company owns. Public relations isn't his thing.

Many of the billionaires on this list made their money buying and developing land in Tokyo. Yoshiaki inherited his big chunks of real estate. It was his father who started the empire that makes Yoshiaki, 56, worth an estimated $16 billion. Until now, he's never had to be a nice guy.—**Gale Eisenstodt**

TAIKICHIRO MORI

Please. More taxes.

The second-richest businessman in the world owes his wealth of $14.6 billion largely to possession of land in Minato-ku, the ward near parliament where he was born and which he transformed into a great commercial center of Tokyo. Mori, 86, is a developer who owns 78 office buildings, but in Tokyo almost all the value of these choice properties is in the the value of the land not the improvements.

Notwithstanding, Mori would actually like to see land prices in Tokyo fall, and makes a case for how that could happen. It begins with pressures for reform in Japan's crazy-quilt land tax, especially on "farmland" in urban areas. Taxes are so low on this space that there are thousands of precious acres in urban Tokyo supporting cabbages or fruit trees. A drastic change of land taxes is needed, Mori argues. "We will have to pay more tax with the change; but it's inevitable. And we are ready for it."

Japan's 1930 "rich list"

Nineteen-thirty was an important turning point in Japan's history. Nationalism was on the rise; by 1932 Japan's army had secured Manchuria.

In 1930 Teikoku Databank, today Japan's top corporate research firm, tallied up over 3,000 of Japan's wealthiest individuals. In 1933 an update was published as a slim volume ornamented with portraits of the successful men; Western-style top hats and round spectacles seem to have been in vogue. Of the group, 15 were billionaires in today's dollars.

Who was Japan's richest man in 1930? Teikoku Databank very diplomatically assigned the honor to two individuals: Hisaya Iwasaki and Hachiroemon Mitsui, the respective heads of the rival Mitsubishi and Mitsui *zaibatsu*. Each man had assets of Y400 million. According to estimates by Teikoku Databank and Japan's Economic Planning Agency, in today's yen that would be Y649 billion, or about $4.3 billion.

In fact this was only a fraction of Mitsui and Mitsubishi wealth. Eleven Mitsuis were in the 1930 directory, together worth over Y2 trillion, or nearly $16 billion in today's terms. The Iwasakis of Mitsubishi were a bit poorer: nearly $12 billion in 1930, in today's terms. By 1933 Teikoku Databank reported Mitsui holdings up some 20%, to $19 billion, the Iwasakis' to $13 billion. (Today's richest man, Yoshiaki Tsutsumi, has an estimated net worth of $16 billion.)

Other *zaibatsu* families appeared on the "rich list." The Yasuda family's wealth, based largely on banking, in 1933 came to over $5 billion. The Sumitomo family's fortune was put at nearly $4 billion. Also included were individuals not associated with the huge conglomerates. A few of today's billionaire families were already big enough to be noted in 1933: Murayama, founder of the newspaper *Asahi Shimbun* ($115 million); Hattori, creator of Seiko Group ($690 million); and Ishibashi, who started Bridgestone ($46 million).

Landowners, while not the force they are today, made a nice showing—the richest logged in at $760 million. So did money lenders and former *daimyo*, or military lords, including members of the Tokugawa family which dominated Japanese politics from 1600 to 1868.

After Japan surrendered to the Allied forces in 1945 the Occupation broke up large land holdings and set out to break the power of the *zaibatsu*. Payment to *zaibatsu* families for stock holdings was made in ten-year nonnegotiable government bonds. But the ensuing inflation made the compensation close to confiscatory. A capital levy ranging as high as 90% on assets of Y15 million and above further destroyed fortunes.

Today, Hachiroemon Mitsui, one of the two richest men in Japan back in 1933, is 94. He holds an honorary title at Mitsui Real Estate. If he still belongs on our list, his money is well hidden.—**Gale Eisenstodt**

Hachiroemon Takamine Mitsui

Ryohei Murayama Kyodo

Hisaya Iwasaki

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Taikichiro Mori

And when the farmers finally sell, their acreage will be available to developers like Mori. "Over the past few years, something between 300 and 400 hectares [750 to 1,000 acres] of office space have been created per year in Tokyo," he says. "And this year's supply is said to be about 700 hectares. If the pace continues, there may be a glut of office buildings in the foreseeable future." He adds: "And when the Japanese economy loses its power, land prices may fall."

Developing is what Mori, a professor of economy until he was 55, wants to do most. He aims to build more complexes like his locally famous Ark Hills—office towers, condos, a hotel and a concert hall, finished in 1988. He very much wants land prices lower, even if it would cut into his paper wealth.—**Hiroko Asami**

KITARO WATANABE

Japan's first big real estate casualty

Watanabe is one of the multitude of Japanese billionaires whose main fortunes were made in the recent real estate boom. He's also one of the first to be in visible cash flow trouble. Watanabe, 56, owns Azabu Building, a real estate investment company, and Azabu Motors, a dealer of expensive imported cars like Mercedes-Benz and Rolls-Royce. The real estate is the bulk of the wealth—still estimated at a huge $9.2 billion, net of debt. It's also the bulk of the problem.

Watanabe used the first fortune he made selling the cars to buy most of his 1 million square feet of Tokyo land between 1984 and 1987, a period when lax monetary policies encouraged land speculation. But the Tokyo boom has cooled, and long-term interest rates have risen to 7% from 5% in two years. Admits an Azabu spokesman: "Our interest payment burden is getting severe." The Group shows $2.3 billion long-term debt, $300 million more than last year. It was more than a year ago that Watanabe sold his 20% stake in Koito, a car-parts maker, to T. Boone Pickens.

The land may be valuable, but it doesn't generate much cash to cover that debt service. Sources say Mitsui

Zukin

Kitaro Watanabe

Trust Bank, Watanabe's main banker, will dispose of some of his real estate to pay down his debt. One clue: The bank has installed a vice president in Azabu Building.—**Hiroko Katayama**

KICHINOSUKE SASAKI

Tokyo's Donald Trump?

Since the late 1970s Sasaki, 57, has bought hundreds of parcels and buildings—mainly in Tokyo's commercial Minato ward—going heavily into debt in the process. The debt totals $1.8 billion. The assets? Sasaki hinted to FORBES that they exceed $6 billion. Our more cautious guess is $3.6 billion. More troubling, Sasaki's interest and operating costs last year came to around $125 million. With rental income of only about $116 million, his estimated negative cash flow is around $9 million.

A bull on the Tokyo real estate market but a bear on Osaka *(see also Yoshimoto, p. 171)*, Sasaki claims a reserve fund of about $330 million. If rents continue to rise for several more years, Sasaki, who was a medical doctor before he built a clinic and discovered Tokyo real estate, should be able to catch up and close the gap. But he keeps buying more property: Last year he put another $650 million into 36 new properties, mostly in Tokyo. Within three years, he says, he plans to triple the floor space of his buildings, to 3.5 million square feet. Meanwhile, argues Sasaki, the land will gain value from redevelopment. His bankers, evidently figuring Sasaki is a builder—as opposed to a speculator—apparently intend to continue financing him. He—and they—are on an escalator to the sky. Can they avoid a bust? Sure. They just have to make sure they get off the escalator before land prices do.

SHIGERU KOBAYASHI

Takeover war, Japanese style

As Kobayashi stampedes about the U.S. snapping up landmark buildings and writing goodwill checks to city governments and local philanthropies, Shuwa Corp.'s founder-president is being branded a corporate raider back home.

Robert Wallis/J.B. Pictures

Kichinosuke Sasaki

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Shigeru Kobayashi

Kiko Kurita Gerbner Eisner

Last year it was revealed that Kobayashi bought big positions in several Japanese retailers, including two supermarket chains with distinctly poor prospects. The apparent plan: merge them with Life Stores, another Shuwa investment headed by a friend from his World War II army days.

The supermarkets quickly called in Wasserstein Perella, which, with Nomura Securities, devised a very Japanese plan: The targets would issue each other shares to dilute Shuwa's holding—until a Tokyo court called the deal unfair.

Then Kobayashi's old war buddy suddenly announced a new stock distribution to Life shareholders. That pushed up the stock price, letting Kobayashi sell his 6% at a small profit. But he has not stopped shopping around. Shuwa is buying more shares of the supermarket chains.

Meanwhile, Kobayashi has also bought another building in downtown Los Angeles for $30 million, and one in San Francisco for $60 million. Last fall Shuwa joined with Tishman West for a first investment in Europe, a 250-year lease on Ashdown House in London, for about $154 million. All this takes money. Kobayashi has lots of assets, but they are getting leveraged: On some $6 billion in Japanese assets, his net worth seems to be near $2 billion.—**Gale Eisenstodt**

GENSHIRO KAWAMOTO

How to calm down the Americans

In 1987 Kawamoto drove around Hawaii in his white Rolls-Royce, known as the "Kawamotomobile," snapping up 178 rental properties for $170 million, including the famous

Genshiro Kawamoto

Robert Wallis/LB Pictures

Kaiser estate. The original plan was to refurnish, remodel and rent to rich visitors. That idea's been dropped, and now 60% of the houses have been rented back to the original owners at going market rates. But in the process, Kawamoto, age 58, managed to thoroughly alarm the entire island with his one-man invasion.

That didn't stop him from a second wave of American buying. But this time, he was better received. Instead of buying existing houses in a land-tight market, Kawamoto acquired tracts, and built 423 houses in land-blessed Sacramento. This kind of development benefits local people, displaces no one, and creates jobs. Next, a project in Santa Rosa, with 149 houses and 74 condominiums, scheduled to be completed by the end of next year. For these projects, he's already invested about $188 million. More are planned in Sacramento.

It's a long way from the family kimono business he closed in 1965. In 1972 he launched Marugen K.K., which is now worth $1 billion and operates properties principally in the Ginza. If he heads back to Hawaii, maybe the Rolls-Royce should stay home.—**Hiroko Asami**

YONEICHI OTANI AND FAMILY

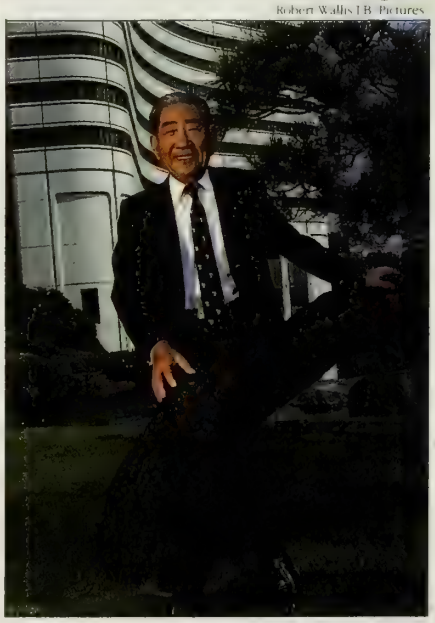
Keeping up with the Okura

Yoneichi Otani constantly strives to keep his namesake New Otani Hotel in the same top-tier bracket as his two primary Tokyo rivals, the Okura and the Imperial. If occupancy rates aren't as high as they are at the two competitors, Otani goes after more parties and weddings. He recently spent about $130 million to upgrade single rooms to bigger twin rooms—a luxury in crowded Tokyo. By all accounts, the New Otani is able to cater to every type of customer.

The group manages 15 other hotels in Japan. These include the Osaka New Otani—without question a very plush hotel—and a string of New Otanis in Los Angeles, Hawaii, Singapore and Beijing. But the Tokyo hotel is the flagship.

The Otanis are adding to it: Yoneichi, 74, is investing about $240 million in a 30-story office building to connect to the hotel's tower wing. It will house boutiques, party halls, a museum and offices—and bring in

Robert Wallis/LB Pictures



Yoneichi Otani

$65 million a year in rent.

The hotel business may be lucrative, but the Otanis' real wealth is the 745,000 square feet of central Tokyo Yoneichi and brother Kokichi inherited from their father, a one-time sumo wrestler and industrialist who bought it from an aristocrat. It's worth maybe $19,000 a square foot—and the family, all together, about $3.4 billion.—**Nobuko Hashimoto**

HARUHIKO YOSHIMOTO

Why Osaka land is not this year's buy

The Yoshimotos have been dedicated Osaka landlords for generations, in which time they have developed a precept: Never invest in securities, except maybe national bonds. Haruhiko, keeping the faith at 66, has never spent a penny on a share. With at least $3.1 billion in Osaka land, he's a good person to explain the almost mystical Japanese belief in land: "For the Japanese, land is gold. So if you see land, think of it as a lump of gold spread over the ground." Yoshimoto explained that no real Japanese thinks of leaving his island country, so land in Japan has a domestic value not related to values overseas and outside normal cash-return calculations.

Robert Wallis/LB Pictures

Haruhiko Yoshimoto

Precious enough to play rough for. Last year the Japanese media reported that the *jiageya*—professional criminals who specialize in scaring out small-scale landlords or tenants for large-scale buyers—had escalated their activities in Osaka. The reason quickly became evident: Land prices in Osaka have jumped 50%, even as land prices stayed stable in Tokyo. Among other things, the new Kansai International Airport near Osaka will open in three years.

But Yoshimoto told FORBES he thinks Osaka's land price rise last year was too sudden. He anticipates a 10%-to-20% drop to compensate. Yet he's not selling his land there. What else would he buy? Stocks that Crash?—**Hiroko Katayama**

TAMESABURO FURUKAWA

Golden years

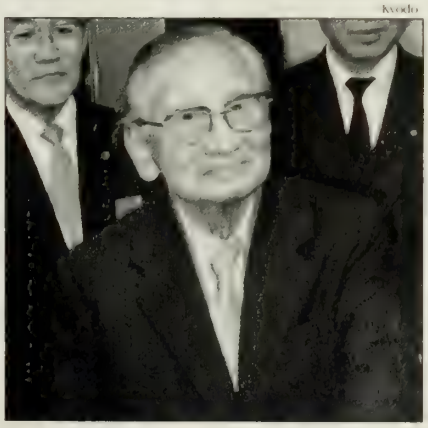
"One hundred years old, but still in my youth." Tamesaburo's formula for longevity—he celebrated his centennial in January—is green tea, and perhaps making donations.

He's also famous for not taking a check. Not since 1921, when he was nearly ruined by a financial panic. That's when he quit selling women's hair ornaments and got into movie theaters, restaurants and coffee shops. All cash businesses, no credit. But the old man did trust land, which he bought with some of that loose cash. Today the land appears to be worth well over $2 billion. What he did with the rest of the cash is less clear, except that he didn't spend it all.

If it weren't for Katsumi Furukawa, his eldest son, who died in 1986, Tamesaburo's film business might have stayed an obscure theater operation. But Katsumi started family-run Nippon Herald Corp. in 1957, and imported thousands of famous foreign films—making the family famous in the process. Today, the Herald Group owns 30 or so movie theaters, plus diversified film production, import and leisure businesses, run by Katsumi's eldest living son, 46-year-old Tameyuki Furukawa.

And old Tamesaburo? He wants to reproduce a 14th-century temple in his hometown. The original, the famous Kinkakuji in Kyoto, is thought to have been covered with gold. Furukawa is reported to be ready to pour nearly $200 million into the project. That's a lot of leftover change.—**Hiroko Asami**

Kyodo



Tamesaburo Furukawa

KEN HAYASHIBARA

Good riddance

Last year was a good one for 48-year-old Hayashibara: He finally lost a major tenant. Kabaya Confectionery Co., founded by Ken's father, finally agreed to move from a key 45,000-square-meter property near the Okayama city train station.

They'd been unhappy bedfellows for a long time. In the 1960s the management of Kabaya wrested control of the company and booted out Ken and his family. Since then, Hayashibara has sued the candy company four times for not paying rent properly. When Kabaya finally goes in 1991, it will free Hayashibara to develop the property—and maybe make some decent money on it instead of paying lawyers. RTKL Associates of Dallas is expected to compile a master plan by the end of this year.

Toshi Matsumoto/Sygma

Ken Hayashibara

Meanwhile, Hayashibara's company may have a hot product on its hands: natural human alpha interferon. Kenya Medical Research Institute, in Africa, reported earlier this year that AIDS symptoms can be alleviated within a few weeks with small amounts of the Hayashibara drug used in a novel way: low-dose oral therapy. The World Health Organization is said to be undertaking a verifying study in four African countries.

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underpinning of the Hayashibara group now—currently worth an estimated $2.6 billion. But sustained biotech research and development may be the truly invaluable long-term asset.—**Hiroko Asami**

EITARO ITOYAMA

Unseated

Last year Eitaro Itoyama talked about starting a club of young, ambitious politicians to bring new life to the ruling Liberal Democratic Party. Money was no problem: He owns land, inherited five years ago from his entrepreneurial father, that is now worth about $5.8 billion. But getting re-elected was a problem. In elections last February, the ruling party held on to its position, but young—he's only 48—Itoyama was unseated. Political analysts say the public was probably so disgusted with money-politics scandals that it recoiled from the idea of a rich politician. On the other hand, some of his very American-sounding views—"Japan should not be on an equal footing with the States unless she increases her defense budget"—may have hurt too.

For the moment, Itoyama is keeping himself busy with his company, Shin Nihon Kanko Kogyo, which owns and manages golf courses and resorts in Japan. Most recently he invested about $330 million to develop a resort in Miyazaki, on the southern Japanese island of Kyushu, which will include a yacht harbor, cottages, private beach and an 18-hole golf course.

Business also takes him abroad, particularly the U.S., where he has been negotiating with "leading companies" to invest in resorts, his assistant told FORBES. Most of Itoyama's fortune is in Japan.—**Nobuko Hashimoto**

Kyodo

Eitaro Itoyama

YOHACHIRO IWASAKI

Bamboo. Of course.

At 88, Yohachiro Iwasaki still travels about Japan to check on the family business that his son, Fukuzo, 65, runs. A self-made man, Yohachiro has built up a business now estimated at about $5 billion.

He started with the lumber trade—which became big business from rebuilding after the major Kanto earthquake of 1923. Then real estate, especially resorts. His empire now includes forests, hotels, parks, resorts, land and sea transport—and a little petroleum sales on the side.

Kyodo

Yohachiro Iwasaki

Iwasaki has always preferred to develop property from scratch and create his personal vision rather than buy someone else's idea. Quite often the projects require many years to bear fruit, "but that's what he's like," explains Managing Director Koichi Ikehata. A prime example: his huge resort in Australia's Queensland. It will eventually include 12 miles of seashore, hotels, golf courses and tennis courts, and a 3,200-foot runway to accommodate arriving Japanese.

Back home, plans are more modest: A new jetfoil service to the remote islands of Tanegashima and Ogushima, in southern Japan, has increased tourist traffic over 30%, and the company is opening a new 54-room hotel.

It's a Japanese custom to ask the secret for keeping vigorous and healthy into extreme old age. Iwasaki's reply: "Always use your head, think about your work, walk a lot, massage the soles of your feet with bamboo, and do your best to be useful to society."—**Nobuko Hashimoto**

HIDEKI YOKOI

Still looking for respect

Yokoi bought Tokyo's prestigiously located Hotel New Japan in 1979, in part to gain status as a businessman. But the hotel burned down in 1982, killing 33, and Yokoi was sentenced to three years in jail because he failed to install required fire-prevention equipment. He's still out on bail, pending appeal.

The ruined hotel hasn't been torn down yet. Nor is it sold, despite press reports of interest by big Japanese conglomerates. But Yokoi has good reason to hold on: The site is now worth at least $1 billion, ten times more than before the fire, and it's no longer possible to find this large a parcel—2.1 acres—in the center of Tokyo. Especially not one near five subway lines, many hotels—and Kasumigaseki, the seat of the Japanese parliament. Yokoi told the local press he's almost ready to redevelop the land because he's almost through compensating the families of those killed in the fire as well as the tenants who had offices or restaurants in the hotel. Yokoi has also said he wants to put up a 50-story office building.

Yokoi first made his fortune in the military supply business, then real estate. His great wealth—$1.1 billion—hasn't bought the respect the 77-year-old Yokoi craves from Japanese society. A giant office building on the hotel site might be his last chance. Sometimes being a billionaire just isn't enough.—**Hiroko Katayama**

Kyodo

Hideki Yokoi

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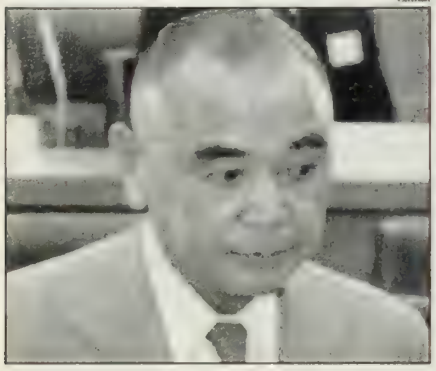
HEIZO KOBAYASHI

How to become a billionaire

Heizo Kobayashi, 77, made most of his $1 billion fortune in Shinjuku, an important Tokyo entertainment and shopping district. It's getting more important, with top land prices, particularly near Shinjuku railroad station, running as much as $17,000 a square foot—as pricey as in the more famous Ginza.

What's intriguing is how Kobayashi uses this expensive land. Instead of fashionable high-return retail shops

Zaikai



Heizo Kobayashi

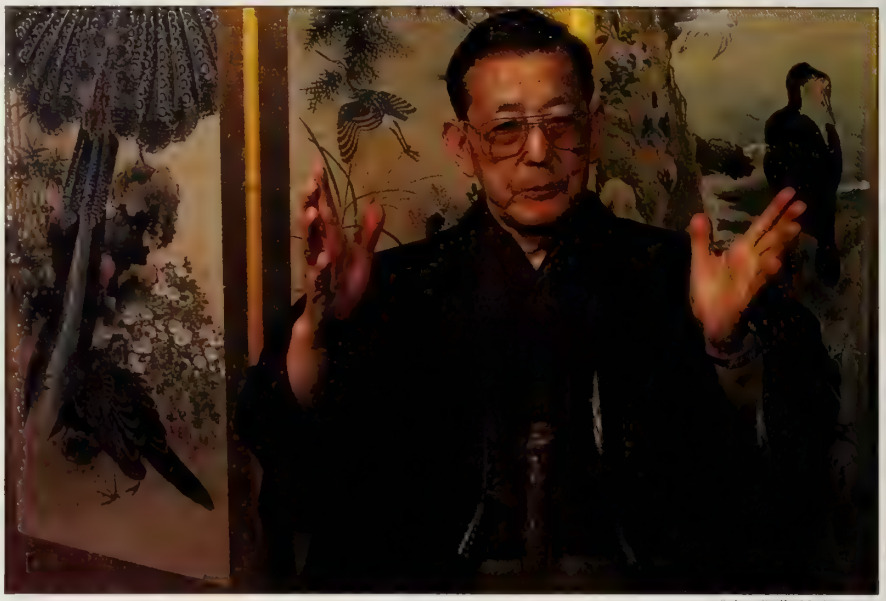
there's a supermarket, camera store, coffee shop, a moderately priced restaurant, game arcades and convenience stores.

Kobayashi bought his land cheap, decades ago, out of his income as a prospering retailer. As a new landlord he decided to stick to what he knew best: serving the basic needs of the shop owners, ordinary workers and college students who lived upstairs from the high-rent nightspots. Meanwhile, the land's value mushroomed. Today no other low-margin shops could exist paying the rents such land now commands on the market. So Kobayashi's are crowded in the evening with the owners of the nearby bars and restaurants. He also sells ice—a business he started after the war. So when the bars near Shinjuku station run out, they turn to the local billionaire.—**Hiroko Asami**

RINJI SHINO

How to live like a billionaire

At 82, Shino is used to elegance. Most days he lives in a suite at the Hilton in Osaka. He frequently enjoys Château Chino, red wine from his own winery in Bordeaux, when he lunches at the château-like clubhouse of his own golf course outside Osaka. "My husband is like a spoiled child," his wife says fondly. "He has led his



Rinji Shino

Robert Wallis/J B Pictures

life just as he wanted."

Lest the routine get dull, Shino spends one-third of the year in France and elsewhere in Europe, often visiting his two sons, who work in Düsseldorf and Brussels. He likes to shop for Hermès ties and for art. He recently paid about $2 million each for three pieces by the famous Japanese painter Sharaku.

Rinji Shino is the 32nd generation of the Shino family, descended from the famous 12th-century Hei family. At age 25, Rinji took over the family businesses after the death of his father, who developed much of the Kansai district around Osaka before World War II: He had put in a resort, a hydroelectric plant and roads. He had made his importance and wealth plain to all: "At that time, my father was driving a Ford," says Shino.

Today, Rinji owns some ten companies in transportation, leisure, restaurants and gas stations. Total assets, including his real estate in Japan and France, near Fontainebleau, are worth $3 billion.—**Hiroko Katayama**

HIROTOMO TAKEI

The roads not taken

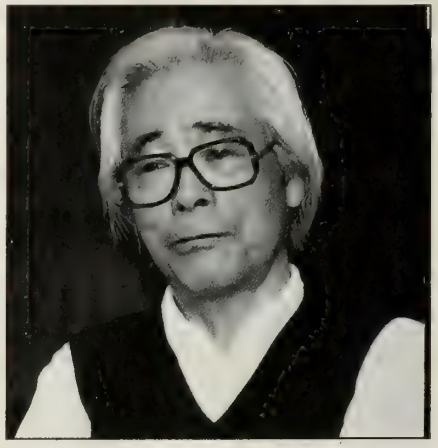
Recently, I was told by a fortuneteller that I should have chosen a way to become a religious priest, not a businessman," sighs Takei. Poor Hirotomo! He's 69 years old, and missed his calling not once, but twice.

In his youth, Takei tried to be a newspaper reporter, but found he excelled at the business side of journalism. In 1951, two years after starting a magazine, he was going to start an Osaka edition of *Yomiuri Shimbun*. But he quit within six months and went back to Tokyo.

Using his publishing profits, he began buying real estate in 1958 and founded his Chisan group. It has more than 25 companies in real estate, hotels, leisure, restaurants, food and publishing. Chisan also has several publicly traded small companies he acquired control of in the late 1980s: delicatessen, cotton spinning, fishing equipment and computer software.

Sitting in his office surrounded by his own paintings and pottery, Takei

Zaikai



Hirotomo Takei

does not look like the head of a serious Japanese conglomerate. He has long since decided not to wear a tie at the office—or even shoes, other than slippers—except when there's an occasion like a funeral or wedding. "I wanted to be free from everything," says Takei, whose worth we estimate at over $4 billion.—**Hiroko Katayama**

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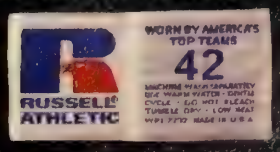

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THE AMERICAS

COLOMBIA

PABLO ESCOBAR GAVIRIA

Over to Gustavo?

Pablo Escobar and the Medellín cartel he heads are on the run. Colombia's newly elected president, César Gaviria Trujillo, won a big plurality by promising to be tough on the drug dealers. The federales have seized 142 planes, 20 helicopters, 32 yachts, 141 homes, offices, ranches and villas—even Escobar's private zoo and his Spanish translation of Norman Vincent Peale's *Power of Positive Thinking*.

Escobar, probably still worth some $3 billion, reportedly fled a safe house near Medellín in November with nothing more than his jockey shorts and a submachine gun. Cohort Gonzalo Rodriguez Gacha wasn't so lucky: In December Colombian police killed him in a shootout.

Meanwhile, an annual University of Michigan study finds cocaine and crack use continues to fall among high school and college kids. Cocaine seizures outside Colombia totaled an astounding 140 tons last year—a dead loss of at least $1.5 billion to the Medellín cartel. The U.S. State Department estimates Colombia's total annual production at under 600 tons.

Escobar was reportedly spotted in March at a Colombian beach resort, despite plastic surgery and a beard. In Pablo's absence, cousin Gustavo Gaviria Rivero is said to be running things, for now.—**Claire Poole**

OCHOA FAMILY

The noose tightens

Like Pablo Escobar, the three cocaine brothers—Jorge, Juan and Fabio Ochoa—are also on the lam. Last August they reportedly scurried south to Brazil or Argentina with members of the Cali cartel. Colombian soldiers seized a big chunk of Ochoa farmland, part of an empire worth some $2 billion. The highlight: a $2 million, five-bedroom Medellín mansion belonging to Jorge's mistress. Out back stood their 9-year-old daughter's two-story Cinderella play castle, complete with a lake stocked with black swans.

Their father, Fabio Ochoa Restrepo, pleaded with then President Virgilio Barco: "Let there be dialogue, let there be peace, let there be amnesty." To his credit, Barco ignored the plea. Later, so did the Pope, and the noose is tightening: At least eight Ochoa first cousins have been hauled in by authorities; two, Mauricio and Fabio Enrique Ochoa, are being held in Miami on smuggling charges; another, Ricardo Isunza Ochoa, has been captured in Mexico. The Cartagena customs judge who freed Jorge Ochoa after he was extradited from Spain in 1986 recently got six years in jail. Panama's Manuel Noriega, allegedly once one of the Ochoas' major partners, awaits his trial in Miami on drug smuggling charges. The Ochoa brothers' days seem numbered.—**Claire Poole**

Sygma

Jorge Luis Ochoa

Tony Comiti/Gamma Liaison

Pablo Escobar

BRAZIL

ROBERTO MARINHO

The other woman

After campaigning through his media network for Brazil's recently elected president, Fernando Collor de Mello, Roberto Marinho tasted some of the government's anti-inflationary

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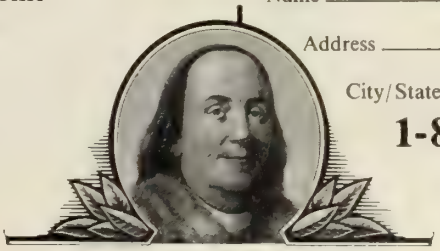

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medicine. Collor's economic shock lost Marinho some of his advertising but did not jeopardize all of it. Marinho runs *O Globo*, one of the country's most important newspapers, and Rede Globo TV network, the fourth largest in the world after ABC, CBS and NBC. The privately held family empire (estimated worth, $1 billion) also includes finance and insurance companies, cattle ranches and shopping centers, but they, too, are hardly recession-proof.

The Collor-Marinho connection traces back three decades to real estate deals between Marinho and Collor's father. The Collor de Mello family's television station in the northeastern Brazilian province of Alagoas is affiliated with the Globo network. And Fernando Collor's brother and campaign director previously worked at Globo.

Globo's juicy soap operas are practically a way of life in Brazil and are

Roberto Marinho

Antonio Ribeiro/Abril Imagens

The cocaine trade's up-and-comers

While the Medellín cartel reels, the Cali cartel, named after the Colombian city that is its base, is gradually taking over the slumping cocaine business. Drug Enforcement Administration officials here estimate Cali may now move half the cocaine entering the U.S., up from 10% just a few years ago.

Behind the Cali cartel are a couple of ambitious businessmen. Gilberto Rodriguez Orejuela, 50, and brother Miguel, 45, grew up in a poor section of Cali. They worked as clerks at a local drugstore. Miguel went on to study law at Cali's San Buenaventura University, but Gilberto (known as "The Chess Player") never finished high school. Instead, he bought a pharmacy and converted part into a cocaine lab. After earning a law degree, Miguel returned to help his brother.

Carlos Humberto/TDC/Contact

Gilberto Rodriguez Orejuela

Using their drug profits, together they have amassed a business empire called Grupo Rodriguez. The group's holdings have included, at one time or another: Colombia's Banco de los Trabajadores and Panama's First Interamericas Bank; two discount drugstore chains; 28 radio stations; commercial finance and investment companies; construction and real estate companies; two pharmaceutical companies; two agribusinesses; a toy company; America, the Cali soccer team; a Chrysler dealership; an auto racetrack; private security companies; motels; and two schools.

Whereas the Medellín cartel is a loosely affiliated group of around 70,000 people, Cali has a tight, more corporate structure, and employs up to 5,000 with a clear-cut chain of command. The Rodriguez brothers' hardworking partner, José Santacruz (The Student) Londono, 45, takes care of daily operations—smuggling, money laundering and the like.

In 1984 Gilberto Rodriguez traveled with the Medellín cartel's Jorge Luis Ochoa to Spain to set up a cocaine distribution network in Europe and buy 10,000 acres in Badajoz for coca cultivation.

But there has since been bad blood. The Cali forces got the blame for a car bomb attack on Pablo Escobar's penthouse apartment in Medellín. In retaliation, Escobar sent thugs to bomb Rodriguez' drugstores and radio stations. When a helicopter that was loaded with men and arms crashed near Escobar's Hacienda Napoles estate, a survivor said that they were paid by the Cali cartel to kill Escobar.

Now that their cocaine is moving in big volume, the Rodriguez brothers are preparing for the worst. Under indictment in the U.S. for drug trafficking, Gilberto Rodriguez has retained Washington, D.C. attorney Michael Abbell, a former Justice Department official who was once in charge of extraditing drug traffickers to the U.S.—**Claire Poole**

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exported to 90 countries. Marinho stars in his own private soap opera: This year, at 85, he sought a divorce from longtime second wife, Ruth, to marry Lily de Carvalho, Rio socialite, a mere 69, who was the 1938 Miss France. Estranged Ruth wanted half his fortune. A settlement is in process. Stay tuned.—**William Heuslein**

SEBASTIÃO CAMARGO

Charting the future

President Collor de Mello's radical attempt to garotte hyperinflation seems sure to choke off many a construction project. That would be bad news for Camargo's $5 billion (revenues) construction and engineering conglomerate, Camargo Corrêa, but for the fact that Camargo diversified before Collor came along. The group is now into fields as far removed as textiles and finance. Big, solidly financed and diversified industrial groups like Camargo's should be better able than most to cope with—and even ultimately benefit from—Collor's economic catharsis.

Now 81, Camargo has three sons-in-law working at the company. He reportedly hired an American consulting firm to help set up succession plans. But he will not go quietly. Camargo still visits the active construction sites of the company that he and his partner, the late Sylvio Corrêa, built up starting in the 1930s from a small subcontracting firm. Estate planning for such Brazilian wealth, say informed Brazilians, seems to center not on the question of when one dies, but rather if.—**William Heuslein**

ANTÔNIO ERMÍRIO DE MORAES AND FAMILY

Collor my world

With more than $2 billion in revenues and net assets of at least $1.6 billion, the Ermírios' São Paulo-based Votorantim is Brazil's largest private sector industrial group by assets. Recently family patriarch Antônio Ermírio has been planning on large-scale investments in aluminum, mining, paper and woodpulp, cement, and maybe petrochemicals.

But President Collor's plan to open Brazil to outside competition could put the squeeze on parochial Votorantim, if it comes to pass. The word from Brazil is that Antônio Ermírio is privately skeptical about Collor's economic package. Publicly, most Brazilian business leaders supported Collor at first. But their objections were completely ignored when Collor earlier this year in effect seized temporarily a large portion of the nation's financial assets. In Ermírio's case, he was reportedly caught with $500 million playing the overnight money market—a Brazilian way to keep up with hyperinflation—when his funds were frozen. Obviously he is not poor from reform. But Antônio Ermírio is already prepared for austerity. At 62, he often drives his own modest car, and doesn't follow fashion trends: He wears dated suits. A workaholic (13-hour days), Ermírio says that he hasn't taken a vacation in 30 years.—**William Heuslein**

Renato Dos Anjos/Abril Imagens

Antônio Ermírio de Moraes

Luis Dantas/Abril Imagens

Sebastião Camargo

VENEZUELA

CISNEROS FAMILY

Back to the Americas

The Cisneros brothers have finally given up their own redevelopment of London's Paternoster Square, 4.2 acres adjacent to St. Paul's Cathedral. Last October the brothers sold the property for £160 million, around £80 million less than they paid for it—although they did retain a participating interest that could yield as much as 30% of the project's profits on completion. Target date: 1994.

Disappointed by this and other problems in the U.K. property market, the Cisneros brothers—Gustavo, 45, and Ricardo, 41—hope to do better

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Like the people of 105 Quincy Street.

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Gustavo and Ricardo Cisneros

with their businesses in this hemisphere. Their U.S. base is Spalding & Evenflo Cos., a sporting goods and baby products company bought in 1984. The brothers are on the prowl for a large U.S. consumer product company.

In Venezuela, Organización Diego Cisneros, started by their father, continues to grow, despite the country's economy. The company has the world's largest independent Pepsi franchise; supermarkets; department stores; and baby food, beauty aids and packaging companies. Its first major investment in basic industry—$280 million for 40% of a local aluminum processor—will come on stream in 1992. Right now the brothers are looking into Venezuela's newly privatized petrochemical industry, which had been a government monopoly since 1976.—**Claire Poole**

MEXICO

GARZA SADA FAMILY

Northward flows the capital

Last October Vitro, the $1.2 billion (sales) Mexican glass company controlled by the Sada side of the Garza Sada family, paid over $900 million for Anchor Glass Container Corp. of Tampa, Fla. It was the largest Mexican takeover ever in the U.S.

Turning Anchor around will be hard work. The Sadas have replaced

Sipa

Bernardo Garza Sada

Anchor's top management and have refinanced part of Anchor's debt. Over the next five years they plan to outfit Anchor with $400 million of Vitro-designed equipment—all part of a plan to let Anchor go after formidable market leader Owens-Illinois.

From Monterrey the extended family controls three other big Mexican companies. Alfa, the $2 billion steel and petrochemical combine, has slashed debt from $2.7 billion to under $1 billion. It has also purged most of its foreign shareholders so it can invest in fields restricted to Mexican capital. Now, Alfa is looking at the 54% stake in Telefonos de Mexico the government is putting up for sale, as well as the steel company Sidermex.

The family's other two companies are Cydsa, the $550 million (sales) plasticsmaker, and Visa (sales, $1.2 billion), which brews Dos Equis and Tecate. Thanks to energetic restructuring and expansion of the group's assets—and to Mexico's recovery—their stake in the four publicly held companies comes to more than $2 billion.—**Claire Poole**

CANADA

CHARLES BRONFMAN

Less passive?

Charles Bronfman, Seagram heir and brother of New York-based Edgar, was burned when Cineplex Odeon (FORBES, *May 29, 1989*) got into trouble; its stock fell from 16 in April to 8½ in December 1989. Bronfman's investment vehicle, Claridge, owned 30% of the theater chain. Cofounder Garth Drabinsky wanted Bronfman's shares. But MCA, with 33% of the votes, blocked the deal. In December Bronfman raised his stake to 34%; being Canadian, he got in his Claridge executive as chairman, who cut costs.

One source thinks Bronfman might sell the 147 Canadian theaters, perhaps to Astral Bellevue, a company one-third owned by his cousins Edward and Peter (worth half a billion). Cineplex has sold 90 of its 342 U.S. houses. This year it wants to pay off $200 million of debt, over a third of the total. With $1.6 billion, including 17% in Seagram, Bronfman can keep Cineplex stock until new management straightens out operations.

Bronfman recently teamed with

Chris Morris Financial Post

Charles Bronfman

Meanwhile, closer to home . . .

Even with sagging property values and Donald Trump's high-profile problems, the U.S. continues to hold the world lead in billionaires, with 62 identifiable individuals having a net worth estimated at over $1 billion as we go to press. Next, but still far ahead of the rest of the world, are Japan (with 40 billionaires)—where stratospheric real estate prices account for 16—and Germany (with 38). But a count of 62 for the U.S. is not the whole story; there are also 37 American families (comparable to the foreign families included on these pages) with estimated net worths exceeding $1 billion. The U.S. billionaires will be updated and covered in detail in the ninth annual Forbes Four Hundred, appearing in October.

Name/*Source of wealth*	Net worth
Kluge, John Werner/*Metromedia*	$5.2 billion
Buffett, Warren Edward/*Stock market*	3.8 billion
Gates, William Henry III/*Microsoft*	3.2 billion
Perelman, Ronald Owen/*Leveraged buyouts*	2.8 billion
Walton, Sam Moore/*Wal-Mart Stores*	2.7 billion
Walton, Alice L./*Inheritance (Wal-Mart Stores)*	2.7 billion
Walton, Jim C./*Inheritance (Wal-Mart Stores)*	2.7 billion
Walton, John T./*Inheritance (Wal-Mart Stores)*	2.7 billion
Walton, S. Robson/*Inheritance (Wal-Mart Stores)*	2.7 billion
Redstone, Sumner Murray/*Movie theaters, investments*	2.7 billion
Newhouse, Samuel Irving Jr./*Publishing, cable TV*	2.6 billion
Newhouse, Donald Edward/*Publishing, cable TV*	2.6 billion
Wexner, Leslie Herbert/*The Limited, Inc.*	2.6 billion
Arison, Ted/*Carnival Cruise Lines*	2.5 billion
Anthony, Barbara Cox/*Inheritance*	2.5 billion
Chambers, Anne Cox/*Inheritance*	2.5 billion
Perot, Henry Ross/*Electronic Data Systems*	2.5 billion
Pritzker, Jay Arthur/*Financier, manufacturing*	2.4 billion
Pritzker, Robert Alan/*Financier, manufacturing*	2.4 billion
Taubman, A. Alfred/*Real estate, art*	2.2 billion
Bronfman, Edgar Miles/*Seagram Co.*	2.0 billion
Bren, Donald Leroy/*Real estate*	1.9 billion
Crown, Lester (and family)/*Inheritance, industrialist*	1.8 billion
Packard, David/*Hewlett-Packard*	1.8 billion
Feeney, Charles F./*Duty Free Shoppers*	1.7 billion
Koch, Charles de Ganahl/*Inheritance (oil services)*	1.7 billion
Koch, David Hamilton/*Inheritance (oil services)*	1.7 billion
Helmsley, Harry Brakmann/*Real estate*	1.7 billion
Hillman, Henry Lea/*Industrialist, venture capital*	1.7 billion
LeFrak, Samuel Jayson/*Real estate*	1.7 billion
Simmons, Harold Clark/*Investments*	1.7 billion
Turner, Robert Edward (Ted)/*Turner Broadcasting System*	1.7 billion
Davis, Marvin Harold/*Oil, entertainment, real estate*	1.7 billion
Stern, Leonard Norman/*Pet supplies, real estate*	1.5 billion
Mars, Forrest Edward Sr./*Candy*	1.5 billion
Mars, Forrest Edward Jr./*Candy*	1.5 billion
Mars, John Franklyn/*Candy*	1.5 billion
Vogel, Jacqueline Mars/*Candy*	1.5 billion
Bass, Robert Muse/*Oil, investments*	1.4 billion
Bass, Lee Marshall/*Oil, investments*	1.4 billion
Hunt, Ray Lee/*Inheritance, oil, real estate*	1.4 billion
DeBartolo, Edward John/*Shopping centers*	1.4 billion
Annenberg, Walter Hubert/*Publishing*	1.4 billion
Milliken, Roger/*Textiles*	1.4 billion
Tisch, Laurence Allan/*Loews Corp.*	1.3 billion
Tisch, Preston Robert/*Loews Corp.*	1.3 billion
Kauffman, Ewing Marion/*Marion Laboratories*	1.3 billion
Anschutz, Philip Frederick/*Oil, railroads*	1.3 billion
Cooke, Jack Kent/*Real estate, investments*	1.3 billion
Icahn, Carl Celian/*Financier*	1.3 billion
Bass, Sid Richardson/*Oil, investments*	1.2 billion
Kerkorian, Kirk/*Investments*	1.2 billion
Bechtel, Stephen Davison Jr./*Engineering, construction*	1.2 billion
Getty, Gordon Peter/*Inheritance (oil)*	1.2 billion
Hill, Margaret Hunt/*Inheritance (oil)*	1.2 billion
Rockefeller, David/*Inheritance, banking, real estate*	1.1 billion
Reynolds, Donald Worthington/*Publishing*	1.1 billion
Hewlett, William Redington/*Hewlett-Packard*	1.1 billion
Murdoch, Keith Rupert/*Publishing*	1.1 billion
Bass, Edward Perry/*Oil, investments*	1.0 billion
Gaylord, Edward Lewis/*Media, real estate*	1.0 billion
Ziff, William Bernard/*Publishing*	1.0 billion

U.S. family fortunes estimated at over $1 billion

du Pont/*Inheritance (Du Pont)*	$10.0 billion
Cargill/MacMillan/*Cargill, Inc.*	4.8 billion
Hearst/*Inheritance (media)*	4.4 billion
Mellon/*Inheritance*	4.2 billion
Dorrance/*Campbell Soup*	3.8 billion
Milliken/*Textiles*	2.8 billion
Lilly/*Pharmaceuticals*	2.3 billion
Busch/*Anheuser-Busch*	2.0 billion
Phipps/*Inheritance (steel)*	1.9 billion
Upjohn/*Inheritance (Upjohn Co.)*	1.9 billion
Hughes/*Inheritance*	1.8 billion
Ford/*Inheritance (Ford Motor)*	1.7 billion
Disney/*Walt Disney Co.*	1.6 billion
McCaw/*McCaw Cellular*	1.6 billion
Dayton/*Dayton Hudson*	1.5 billion
Lauder/*Cosmetics*	1.5 billion
Collier/*Real estate*	1.5 billion
Rudin/*Real estate*	1.5 billion
Bancroft/*Dow Jones*	1.4 billion
Scripps (E.W.)/*Inheritance (newspapers)*	1.4 billion
Blaustein/*Inheritance (oil)*	1.4 billion
Chandler/*Times Mirror*	1.4 billion
Cullen/*Oil*	1.3 billion
Hall/*Hallmark Cards*	1.3 billion
Hoiles/*Publishing*	1.2 billion
Nordstrom/*Retailing*	1.2 billion
Donnelley/*R.R. Donnelley & Sons*	1.1 billion
Wattis/*Inheritance (Utah International)*	1.1 billion
Gund/*Inheritance*	1.0 billion
Temple/*Inheritance (timber)*	1.0 billion
Marriott/*Inheritance (Marriott)*	1.0 billion
Weyerhaeuser/*Inheritance (timber)*	1.0 billion
Weis/*Weis Markets*	1.0 billion
Durst brothers/*Real estate*	1.0 billion
Allen/*Stock market, real estate*	1.0 billion
Bacardi/*Liquor*	1.0 billion
Brown/*Whiskey*	1.0 billion

Robert Maxwell in an unsuccessful bid for the *Jerusalem Post.* Claridge has over $60 million invested in Israel; a spokesman says Bronfman is looking for more Israeli investments to "demonstrate his faith." He also owns the Montreal Expos.—**Manjeet Kripalani**

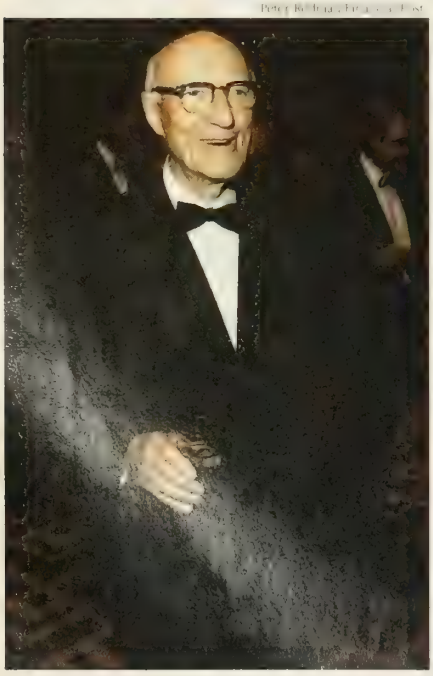
KENNETH COLIN IRVING AND FAMILY

New Brunswick's economic miracle

Over the past year the Irving family has been elbowing its way hard into the U.S. Two years ago they had three gasoline stations in Maine; now they have 200, plus 25 in New Hampshire. In addition, the Irvings own 2 million acres of timber in Canada's Maritime Provinces and in Maine; paper mills; Canada's largest and most efficient oil refinery; more than 1,000 service stations; trucking companies; one of Canada's best shipyards; and a fleet of ships. Not to mention the entire English-language press in New Brunswick.

A living legend at 91, K.C. Irving started with a single gas station in 1924 and today controls his kingdom from his estate in Bermuda or his summer penthouse in St. John, New Brunswick. His three sons, James, Arthur and Jack (known among employees at petroleum-based Irving as "Oily, Greasy and Gassy"), are college dropouts—like their father. They manage the day-to-day functions.

In many ways, the Irving empire is run much like the corner grocery



K.C. Irving

store, which could someday cause problems in so vast a business. But so far the publicity-shy Irvings have done just fine, thank you. With a net worth of $5 billion and growing, the Irvings continue to provoke wrath and inspire awe. They have political influence and they know how to use it.—**Manjeet Kripalani**

GALEN AND GARRY WESTON

Hyperflop cleanup

Galen Weston, age 49, controls George Weston Ltd. from Toronto, while his brother Garry, 62, in London, quietly rules giant Associated British Foods.

The enterprising Galen has been cleaning up a mistake: his decision in the late Seventies to open hypermar-

Galen Weston

kets across Canada. The stores were successful in wide-open western Canada, but they bombed in eastern Canada.

What to do? Galen Weston converted some of the hypermarkets into regular Loblaws Supermarkets, Canada's largest supermarket chain (Loblaws is a George Weston division). Most of the remaining space has been converted into department stores, movie theater complexes and fast-food outlets. George Weston currently is focusing on what it does best: food processing and distribution.

In London, brother Garry owns 63% of ABF, which provides a third of Britain's bread and owns top-selling brands such as Twinings tea. After selling such assets as Gateway Plc. last year *(see Germany's Erwan Haub),* ABF is now sitting on nearly $2 billion

Garry Weston

in cash. Observers reckon that Garry Weston might bid a second time for Berisford, the U.K.'s largest sugar company.

Garry Weston is cautious; he reportedly takes the underground to meet his bankers. Extroverted Galen is well known in Britain, where he spends two months a year, for playing polo with Prince Charles.

All of which would make the original George Weston, who was a baker's apprentice, proud. The family holdings in Weston Ltd. and ABF are up to a total of $2.7 billion.—**Manjeet Kripalani**

PAUL, ALBERT AND RALPH REICHMANN

The $6 billion canary

Easily Canada's wealthiest family, with a combined fortune of $9 billion, the Reichmanns can take in stride the much-reported crumbling of Campeau's empire, in which they have a $600 million investment.

But can they take in stride the general weakening of the real estate market in the U.S. and the problems of their $6 billion Canary Wharf project in London?

Probably. Their base is 50 million square feet of prime real estate in North America alone. Mortgages on the family's properties in New York, where their Olympia & York owns 25 million square feet, suggest that the Reichmanns have financed their deals with roughly as much equity as debt—pretty conservative leverage for property developers.

The Reichmanns also own a $5-

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Peter Redman/Financial Post

Paul Reichmann

billion-plus portfolio of blue-chip Canadian energy-, land- and industry-related stocks. And they are planning to take their giant GW Utilities private.

But huge Canary Wharf is off to a rocky start. Currently about 20% of the proposed 11 million square feet has been committed. Rents in the City of London have dropped by almost 20%, and U.K. real estate market observers say the brothers have been offering competitive tenant inducements. Yet the Reichmanns are looking even further afield: Olympia & York is proposing a $250 million, 60-story office tower in downtown Moscow and bidding with a consortium of Japanese banks to design office buildings on 15 million square feet in Tokyo.

The Toronto-based Reichmanns have come a long way since the family fled Austria in 1938. They are highly regarded in property circles for their intelligence, honesty and quality work. Still, the weak property markets here and in London will test their skills.—**Manjeet Kripalani**

KENNETH ROY THOMSON

Working on Hudson's Bay

The reigning Lord of Fleet, 66, consolidated the family's far-flung media and leisure travel businesses last year into Thomson Corp. By one count it is the world's fourth-largest media conglomerate, after Time Warner, Bertelsmann and Capital Cities/ABC. The group owns over 200 U.S. and Canadian publications, including the Toronto *Globe and Mail* and *American Banker*.

Meanwhile, the big U.K. travel business was down last year, in part because of high interest rates. And Thomson's 1979 acquisition of 75% of Canada's Hudson's Bay Co. has yet to prove itself. Son and heir apparent David, 33, was reportedly involved in turning around one of the Bay's several chains (Zellers); and recently analysts have been sounding optimistic on the rest. Thomson wants to spin

Canapress

Kenneth Thomson

off Markborough Properties, Hudson's Bay's real estate subsidiary that represents a big chunk of Hudson's market value.

Unlike his flamboyant father, Roy Thomson, Kenneth Thomson lives modestly, tending his 200 valuable Cornelius Krieghoff paintings, his rare ivory carvings—and 70% of Thomson Corp., recently worth nearly $5 billion.—**Manjeet Kripalani**

EATON FAMILY

Success breeds cohesion

The legacy of the first Eaton in Canada (Timothy, an Irish emigré who opened his Toronto store in 1869) currently is worth some $1.3 billion to his great-grandchildren. They preside over Eaton's, Canada's largest retailer after Sears, Roebuck: 110 stores nationwide, with estimated profits of $50 million.

The Eaton family is by now as Canadian as the maple leaf: One out of five Canadians has worked for Eaton's at some time. In Toronto Eaton Centre and Eaton's flagship store have become major tourist attractions.

Of the current generation Fredrik Stefan, 52, is the chairman of T. Eaton Co., the retailer. His brother George Ross, 44, is the president. Another brother, John Craig, 53, runs holding company Eaton's of Canada with his brother Thor, 47.

The Eatons also own 52% of Baton Broadcasting, the private Canadian television broadcaster.

If there is a weak spot, it is a small one: Simpsons, the Toronto-area department store chain that is controlled by the Thomsons *(which see)*, has a store next to the Eaton Centre. Some Toronto shoppers say that the Simpsons store is better on quality and image.

On the other hand, the Eaton family has not prospered for a century through complacency.

With all those brothers, you would expect family infighting, but none is discernible. "The decision making is remarkably cohesive," says William Chisholm, retailing analyst at Loewen, Ondaatje. "You might even say boring."—**Manjeet Kripalani**

Fredrik Eaton

Photos by Brian Condron/Financial Post

John Craig Eaton

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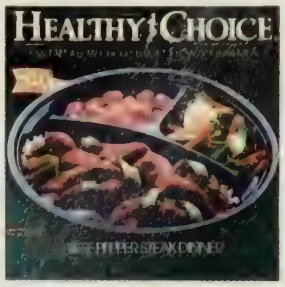

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EUROPE

DENMARK

KRISTIANSEN FAMILY

The perfect toy

For four decades the Kristiansens have been producing those ubiquitous little plastic Lego construction bricks. Lego Group is a closely held, secretive company. Sales are an estimated $700 million, up 15% last year. The family is worth $1-billion-plus.

Lego Group was founded in 1932 in the small Jutland town of Billund, by carpenter and joiner Ole Kirk Christiansen (the younger generation changed the spelling). At first he made ironing boards, stepladders and wooden toys. The name Lego comes from the Danish *leg godt,* or "play well."

In 1949 Christiansen tried plastic bricks. By 1958 the last interlocking configuration, in use today, was perfected. (Six of the eight-stud bricks can be combined in 102,981,500 ways—this is not counting colors.)

Ole's son Godtfred Kirk Christiansen saw that his father's little bricks fulfilled his ten principles defining the ideal toy:

- unlimited variations for play
- no time limit on play
- good for all ages
- for boys and girls alike
- good all year round
- never out of date
- safe and of good quality
- stimulating, but with no fighting
- encourages imagination
- and the more of it the kid buys, the better the toy gets.

It's those add-on purchases that keep Godtfred, now 70, and his son, current president Kjeld Kirk Kristiansen, 42, smiling. Rather than just replacing older Lego bricks, new shapes and sizes revive and enhance the toy. Now Lego even sells software to computer-control Lego constructions. For those who want to see the toy's full potential, there's the Legoland amusement park in Denmark, complete with Lego cities and Lego Statue of Liberty, as well as Lego Mount Rushmore.—**William Heuslein**

Sally Fear/Impact

Kjeld Kirk Kristiansen

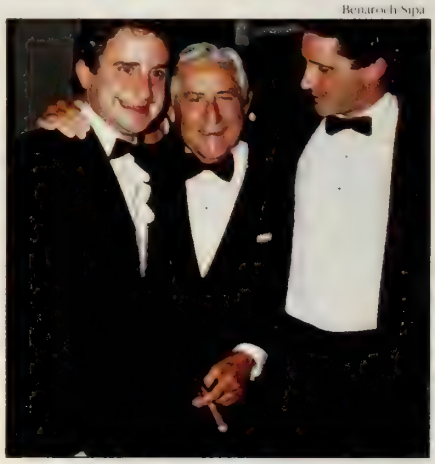
GREECE

STAVROS NIARCHOS

Greek tragedy

This legendary shipowner and archrival of the late Aristotle Onassis likes to call himself a "first-generation Niarchos." His father married the daughter of a prosperous grain miller from Piraeus, then immigrated to Buffalo, N.Y. The couple grew homesick. On July 3, 1909, three months after they returned to Piraeus,

Benaroch/Sipa



Stavros Niarchos and sons

Stavros was born. He eventually went to work in the family flour mill.

The young man saw that most of the mill's wheat was imported, and he realized he could save the mill money by buying, instead of chartering, ships to transport the grain. In 1935 he bought his first ship, reportedly for $50,000. A decade later he began convincing major oil companies to sign long-term charters for yet unbuilt tankers. He then parlayed the contracts into financing for ships.

Rivalry with Aristotle Onassis spurred Niarchos to build Greece's first shipyard, in 1957. Onassis countered by founding Olympic Airways. The rivalry did not stop at business. As in a Greek tragedy, in 1947 Niarchos married Eugenia Livanos, daughter of another famous Greek shipping magnate. It was one year after Onassis

had married Eugenia's sister, Tina. Eugenia died in 1970 of an overdose of sleeping pills.

In 1971, after a brief marriage to Charlotte Ford, Niarchos married Tina Livanos Onassis, by then Aristotle's ex-wife and mother of Christina Onassis. Like her sister Eugenia, Tina died of an overdose of sleeping pills, in 1974.

While his private life has been tragic, Niarchos has triumphed in business. He currently owns 24 vessels worth an estimated $300 million—8 tankers and 16 bulk carriers. At 81, he has far more than ships: a substantial portfolio of U.S. Treasurys, blue-chip stocks, real estate and gold and one of the world's finest private collections of Impressionist art, much of it at his 18th-century Hôtel de Chanaleilles in Paris. FORBES found an estimated $1.2 billion of net worth.—**Spyros Manolatos**

JOHN LATSIS

A Greek bearing gifts

John Latsis, 80, keeps a model of the ferry he worked on in his office, lest he forget his humble origins. Born to a poor family from the Peloponnisos, Latsis was at first a fisherman, then a baggage handler on the Aegean ferries. He got his break in the 1930s, when he became the European representative for United Molasses of Egypt. Through Arab contacts he got financing for two ships based on a contract to transport Muslim pilgrims to Mecca. He eventually became close friends with King Idris of Libya and President Nasser of Egypt. It is believed he lent his whole fleet to Egypt in its 1967 war with Israel.

Latsis reportedly bought fellow Greek shipping tycoon Stavros Niarchos' yacht, the *Atlantis*, for $35 million and gave it to King Fahd of Saudi Arabia. Renamed the *Abdul Aziz*, this is the yacht often described as the most opulent in the world. From such generosity have come lucrative contracts. One of Latsis' most recent projects is a 50-50 joint venture with Petromin, the Saudi state oil company—the new $3.5 billion refinery in Rabigh near the Red Sea.

J. Helado

John Latsis

Latsis' oil interests are held under Petrola International. For construction work, he uses his Geneva-based Société Générale pour l'Industrie. He owns Banque de Dépôts of Geneva equity, $177 million. In 1989 Latsis founded Private Bank & Trust Co. in London with what is thought the largest initial equity ever approved by the Bank of England—£100 million. His umbrella company is Interlatsco, of Luxembourg.

Latsis is married to his childhood sweetheart. They have two daughters and one son, Spyros, who has a doctorate from the London School of Economics and is being groomed in Geneva to take over the business—and be generous.—**Spyros Manolatos**

GOULANDRIS FAMILY

Will the cousins return?

All 32 first cousins in this closely knit Greek shipowning family hail from the island of Andros, whose tradition of commerce dates to ancient times. The family fortune was created by the cousins' grandfather, Captain Ioannis Goulandris. The captain's grandsons now tend to a shipping-real-estate-art-liquid-investments fortune that's estimated at $1-billion-plus.

There are three basic branches of Goulandrises. N.J. Goulandris, based in Zurich, has the largest shipping fleet, 6 tankers and 13 bulk carriers. A second branch operates as Goulandris Bros., based in London, with 4 bulk carriers. The third branch goes by the corporate name Orion & Global Chartering, with principal offices in New York and London.

Orion & Global liquidated its 25 vessels in 1986-87 to continue diversifying into real estate throughout the U.S. and London, and even Greece. Among other things, Orion owns its office building at 29 Broadway in New York. This branch may be the richest: In 1985, before selling the ships, Orion could show $500 million in liquid assets.

The Goulandris family is now dipping a toenail into Greece. Early this year the cousins teamed up with fellow Greek shipping magnates Vardinoyannis and Livanos to buy the defunct Bank of Chios from the state-controlled National Bank of Greece for nearly $17 million. The money is not significant to them, but the move might be.

This is one of the first attempts by the Greek government at privatization, after years of would-be socialism. These shipowners, who typically keep their business assets far away from Greece, are giving their homeland a small try.—**Spyros Manolatos**

UNITED KINGDOM

GERALD CAVENDISH GROSVENOR

Long-term view

"The Grosvenor Estate has always been a long-term investor," says Daryl Delmotte, who runs Grosvenor International Holdings Ltd., the estate's Vancouver-based international investment operation. It's an outlook that turned a 17th-century snipe bog dowry into a $3-billion-plus global property empire controlled by Grosvenor, sixth Duke of Westminster, now 38. Its core holdings are in London's Mayfair and Belgravia but spread as far as North American shopping centers and an Australian sheep station.

Topham Image Works

Gerald Cavendish Grosvenor

Some of that is a 10% to 20% piece of over $2 billion in partnerships with institutional investors, pension funds and big private individuals, for which Grosvenor supplies advice as well as equity. They invest with a ten-year time horizon, strictly in English-speaking countries, where the culture

and legal systems are familiar.

Grosvenor's favorite choice: Vancouver, B.C., burgeoning, clean, pleasant, and full of Hong Kong flight capital. The U.S. ranks high, too. Grosvenor recently launched a partnership with Sweden's Lundbergs *(which see)* that picked as its first project a $75 million office building in Sacramento, Calif. Buy or build North American West Coast, Delmotte's saying, but stick to quality. No snipe bogs, please.—**William Heuslein**

ROBERT MAXWELL

Growing empire

I love America," Robert Maxwell says. And well he should. Maxwell Communication Corp., once a humdrum, low-margin printer, is now a high-profile publisher, with 90% of its assets and 80% of its sales and operating profits in the U.S. The holdings include Macmillan, Official Airline Guides and Pergamon Press.

Terry O'Neill/Sygma

Robert Maxwell

Maxwell, 67, and his family own 53% of MCC, which is worth $1.2 billion. There's also his private Mirror Group—primarily British newspapers—worth an estimated $500 million, and Pergamon Holdings, a private investment company.

He's currently in a whirl of new activity: an English-language pan-European weekly, launched in May to mixed reaction; 40% of a Hungarian newspaper, *Magyar Hirlap*; and many Israeli investments.

The latter include one-third of *Maariv*, Israel's second-largest newspaper; 18% of Teva Pharmaceutical; and 27% of a maker of electronic graphics equipment. "I'm a great believer that peace will eventually come to the area," Maxwell told FORBES. He may also be betting on Israel's increasing moves to privatize its heavily socialized economy. Whatever, he believes in it enough to put in $200 million so far.—**William Heuslein**

OCTAV BOTNAR

Panamanian puzzle

If one is to believe Octav Botnar, he no longer has any stake in or control over the giant Nissan UK auto distributor he founded in 1968. He has told the press that he "gave" his 71.5% ownership in NUK, now worth $1.2 billion, to a Panamanian charitable trust in 1975.

A Panamanian trust is a great way to stash cash, pay no tax, retain control and regain ownership at will. Under Panamanian law, your charitable trust can be revocable and you can name yourself beneficiary. And you do not have to distribute income unless you want to. Fiduciaries, representatives, employees governmental or private—anyone involved—must keep strict secrecy or draw up to six months in jail and fines. However, the one thing you will probably not do is actually transfer any assets to Panama.

As the sole distributor of Nissan, Botnar supplies 6.2% of England's autos, and NUK (sales, $1.9 billion) is a model of vertical integration. It owns land at the ports of Bristol and Teeside, where cars are unloaded; the trucks to haul cars; and 200 of the 420 outlets. His retail/financing arm was split off last year as a separate entity and sold to Union Bank of Switzerland in Luxembourg. Cut through all the international tax law complexity,

Jack Burke

Octav Botnar

and what you find is a very smart billionaire whose money will serve a greater common good—but who will remain in firm control for as long as he wants.—**Dolores Lataniotis**

DAVID SAINSBURY AND FAMILY

It pays—and costs—to keep up

That perennially excellent performer on the U.K. retail scene, J Sainsbury Plc., is investing heavily in the future of affluence. Its quality-conscious customers are more mobile, so Sainsbury's is building modern food

Topham/Image Works

David Sainsbury

superstores on the edge of town, away from the traditional High Street grocery outlets in town.

The expansion doesn't come without cost. Good retail locations in Britain are prized and costly. Interest charges are mounting, along with labor costs: This spring Sainsbury's had to give an extra 11% in pay to decrease staff turnover. Last year sales topped $12 billion, but the company's growth rate has slowed by about 2%.

Sainsbury's has hedged its U.K. bets with a modest U.S. diversification: Shaw's Supermarkets, based in East Bridgewater, Mass., has 66 food stores throughout New England. Its 1989 sales were $1.7 billion.

David Sainsbury, 49, deputy chairman, is likely to succeed the current chairman, his cousin Lord Sainsbury, 62, great-grandson of the founder. Whatever happens, the family will retain the luxury of thinking long term: It has around half the stock; David alone has 25%. Which helps explain Sainsbury's financial respect—witness a recent market cap of $7.6 billion—along with all that consumer respect.—**William Heuslein**

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SAMUEL, LORD VESTEY AND EDMUND VESTEY

Butchers on the block?

The Vestey family built its $2 billion fortune over the last century by importing meat to nourish Britain's growing masses. They're still a classic case of global, vertical integration: tightly controlled from the top, raising, shipping, insuring and storing

Samuel, Lord Vestey, and Edmund Vestey

meat for wholesale and retail.

At the top: Lord Vestey (Samuel), 49—and cousin Edmund, 58. They make major decisions jointly, governing at least 200 very private companies on six continents with visible annual turnover of over $2 billion.

There is J.H. Dewhurst Ltd., Britain's largest retail butcher, with 1,200 outlets. It's been catering to affluent clients with "personal service" and "custom cuts," but there is competition for such retailers from cost-efficient supermarkets. Managing director Colin Cullimore mourns that 1989 was quite the worst for Britain's meat retail trade in his 25 years of running the business for the Vesteys.

Dewhurst has been sinking huge sums into buying competition as the retail butcher industry consolidates. That strategy could pay off long term, even if Dewhurst doesn't: Insiders figure the Vesteys could close Dewhurst, still sell meats at wholesale—and make a killing selling all those butcher shops to Britain's location-conscious retailers.—**William Heuslein**

SIR JOHN MOORES

Beyond mail order

In an economy hit by high interest rates, British retailing has become cutthroat. Sales are sluggish, profits weak. Yet the British consumer, more affluent after the Thatcher decade, is getting a bit more fussy. Downscale is definitely out, and that's a problem for Sir John Moores' Liverpool-based Littlewoods Organisation Plc., one of the U.K.'s largest private companies. The mail-order catalog business, viewed as somewhat déclassé, has been in serious decline. So Littlewoods, headed by 55-year-old Desmond Pitcher, is trying its Index catalog showrooms, a retail concept until now dominated in Britain by Argos, recently part of B.A.T. The catalog is in a real store, the goods ready in a warehouse in back.

So far, success. Littlewoods is aggressively opening new stores, taking a loss last year to get up to 79 new units. Sixteen additional openings are planned for 1990, but analysts expect Index to break even this year. Littlewoods' overall pretax profits fell to $108 million last year, from $121 million in 1988. Meanwhile, Sir John, 94, worth over $1 billion, is content to count the profits from his dominant position as a soccer-pool operator, his first business and the basis for his success.—**William Heuslein**

ITALY

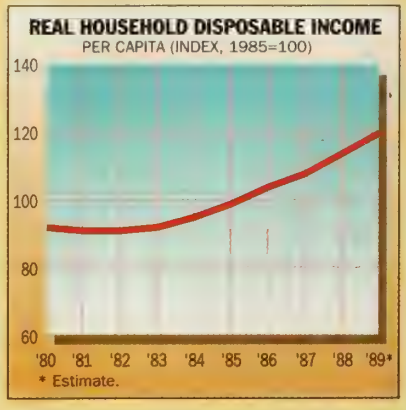
FERRUZZI FAMILY

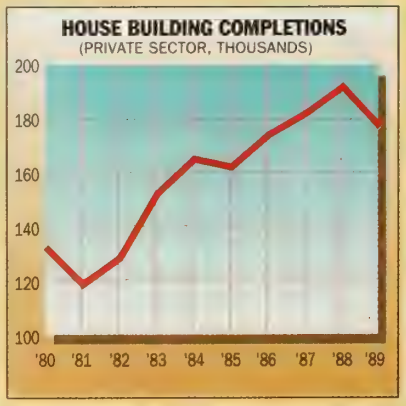
Renaissance man

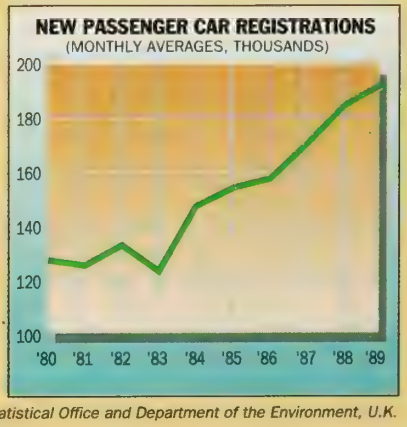
The empire created by the late Serafino Ferruzzi is run by son-in-law Raul Gardini, 57. The Ferruzzi Group (revenues, $40 billion) owns Indiana feed producer and oilseed processor Central Soya. The Chicago Board of Trade imposed an emergency liquidation order on the soybean market last summer to avert the possibility that Ferruzzi and Central Soya might corner soybeans. Ferruzzi officials maintain that they were trading legiti-

The rising tide that lifted most Brits

Yes, British inflation is running at nearly 10%, interest rates stay stuck at 15%, and everybody's braced for recession. But look back on the Thatcher decade for some perspective. The British standard of living is far better today than in 1980. The improvement is reflected in the U.K. billionaires' fortunes. Octav Botnar with his Nissan automobiles, for instance, benefited, as did the Sainsburys with their premium groceries and larger, edge-of-town supermarkets. The Duke of Westminster's land values went up. But as every smart businessman knows, past performance does not guarantee future success.







Sources: OECD; Central Statistical Office and Department of the Environment, U.K.

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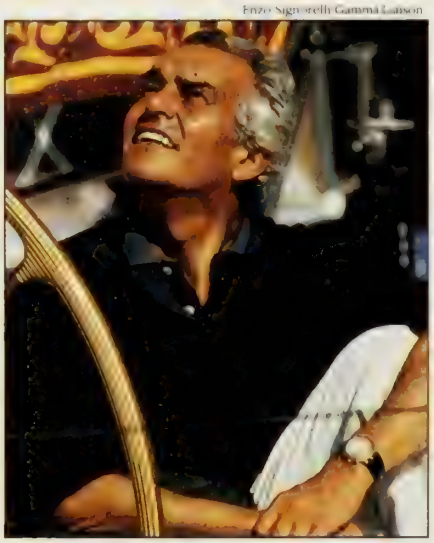
mately; "It was the biggest thing since the Hunts came along and cornered silver in 1980," says trader William Biederman of commodities brokerage Allendale Inc.

On the Soviet front, various Ferruzzi divisions are getting set to build polypropylene plants, help cultivate soybeans, corn and sugar beets, and build or modernize agricultural processing plants, investing an estimated $2.5 billion.

At home, Raul Gardini has been embroiled in a bitter dispute over Enimont, a joint venture between government-owned ENI and Ferruzzi-controlled Montedison which was de-

Enzo Sigmorelli Gamma Liaison



Raul Gardini

signed to rationalize the Italian chemicals industry. Marvels analyst Paolo-Fillippo Lardera at UBS Phillips & Drew: "I have never seen anyone so aggressive toward the state before Gardini."

Anything else? Oh, yes. Gardini, an avid yachtsman, is spending at least $30 million of Montedison's money to win the next America's Cup. Overseeing a family fortune worth upwards of $1 billion, he's entitled to a little fun. **—Katherine Weisman**

BENETTON FAMILY

Back to basics

After their humbling retreat from financial services this year, the four Benetton siblings—Giuliana, Luciano, Gilberto and Carlo—are back at what they know best: retail apparel, worldwide. Edizione, their private holding company, is focusing on its 1989 acquisition of $230 million (sales) Nordica, and a new line of skiwear and accessories, as well as a sportswear collection.

The Benetton family

Gianni Giansanti/Sygma

Just as it grew rapidly in the U.S. in the 1980s, so publicly held Benetton is hoping to grow in the Far East in the 1990s. It acquired 50% of a licensee selling its goods to Japan, and hopes to almost double its existing 440 Asian outlets—under the Sisley, Formula One and United Colors names. A Tokyo stock exchange listing is still in the works.

The four Benetton siblings, who together are worth at least $1.7 billion, seem to have a knack for getting along and running things, and for producing successors. Giuliana, 55, the design wizard, has a daughter, Paola, following in her footsteps. Mauro, the eldest son of Luciano, 53, works on the Sisley line. There are 12 other sons and daughters around for when their parents decide to slow down, which, by all indications, won't be anytime soon.**—Katherine Weisman**

GIOVANNI AGNELLI AND FAMILY

Motorizing Moscow

Fiat did its first business in Russia in 1912, under Giovanni's grandfather. When Giovanni became chairman, in 1966, he started the famous Togliattigrad plant; today it produces over half of Russia's cars. Now Gianni is betting an estimated $5.8 billion with the Soviets over the coming decade. A joint venture with Moscow, signed last December, will give Fiat 30% of an ultramodern Fiat-designed plant situated in Yelabuga, 650 miles east of Moscow. Starting in late 1993, the plant will make 300,000 cars a year; 200,000 are for the Soviet Union, the rest for Europe. Another agreement was signed in January to produce an additional 300,000 cars. Meanwhile, Fiat's nonautomotive side (which accounted for 15% of Fiat's $41 billion in revenues last year) is now actively shoring up its European positions with acquisitions, divestitures and joint ventures.

Agnelli is also cementing the family hold on Fiat. Last fall 7.5% of the family holding company's stock went into the presumably friendly hands of the Aga Khan *(which see)*, a sailing chum of Giovanni's. Younger brother Umberto, 55, will be the next chairman. The Agnellis' 40% of Fiat forms the core of a fortune worth more than

Siccaro-Contrasto/Picture Group

Giovanni Agnelli

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$4.7 billion. Gianni's stake alone is worth over $1.7 billion; he hopes his Russian friends will help him expand that sum.—**Katherine Weisman**

SILVIO BERLUSCONI

What, me consolidate?

For media mogul Berlusconi, 1990 is the Year of Mondadori. Rival (but not billionaire) Carlo de Benedetti bought into one side of a celebrated family squabble at Mondadori, one of Italy's top two publishers. De Benedetti alienated that faction, which then allied with Berlusconi. Says Luca Formenton, a key heir: "He [Berlusconi] is a great motivator of management and people." Berlusconi was named Mondadori chairman last January, but the battle over Mondadori is locked up in lawsuits, and Berlusconi has had to relinquish his position to a court-appointed trustee. But if the courts finally decide in Berlusconi's favor, Mondadori could raise Fininvest revenues ($5 billion last year) by as much as $2 billion.

Another glitch: A bill appeared in Italy's parliament in the spring attacking media monopolies. Silvio's TV network now has a 43% market share. If passed, the bill's amendments would hurt his empire by regulating commercial TV advertising, the main source of Fininvest revenues.

What next for this fellow, whose current worth is about $2 billion? "There are two schools of thought," says Fininvest executive Oliver Novick. "One is that it's time to consolidate what we have. But Berlusconi is a tremendous entrepreneur, and ideas are always bubbling up. . . . I think he'd really like to see soccer take off in the U.S."—**Katherine Weisman**

SALVATORE LIGRESTI

Unloved but unpoor

Rightly or simply out of prejudice, many Italians suspect that the real estate and construction empires of Sicily's Salvatore Ligresti grew from shady beginnings. Ligresti understands he has an image problem. So, last November, he took one of his private holding companies, Premafin, public in Milan with the backing of Mediobanca, the investment banker

Olympia

Salvatore Ligresti

to Italy's business elite. But despite the Mediobanca imprimatur, Premafin's offering was undersubscribed.

Aside from real estate development, mainly in Milan, Premafin's holdings include SAI, Italy's third-largest insurer; Grassetto, a public works construction company; and a major toll highway, Autostrada Torino-Milano. Ligresti wants to expand abroad. Grassetto has signed with the Soviets to build an industrial park in Moscow, has a joint venture in Yugoslavia to build harbors on the Adriatic, and has even won a $46 million contract for work on the U.S.' Interstate Highway 75. SAI, meanwhile, has acquired minority interests in three European insurers outside Italy. Ligresti's 77% holding in Premafin, plus buildings, hotels and private medical clinics he owns personally, all add up to a fortune worth $1.4 billion or more.—**Katherine Weisman**

Sciarra/Magnum

Silvio Berlusconi

MICHELE FERRERO

Sweet success

Michele Ferrero has built his father's company, Brussels-headquartered Ferrero SpA, into the world's sixth-largest confectioner (sales, near $2 billion) by knowing what people like. "Michele Ferrero has to be the most successful new-product creator in the candy business since the end of World War II," says one industry observer. Among his most successful products are the Tic Tac breath mints in the U.S., introduced in 1971, and Nutella, the chocolate hazelnut spread.

At the moment, Ferrero, 65, is test-marketing "Confetteria Raffaello" in the U.S.—coconut and almond cream candies selling for 25 cents each. Ferrero's son Giovanni is involved in Ferrero's international marketing; another son, Pietro, works on the manufacturing side of the business.

Michele Ferrero likes to roam through his new plant in Arlon, Belgium, near Luxembourg. Word has it factory managers get frustrated with his endless tinkering. But that's how he has built the company's value to at least $2.3 billion.—**Katherine Weisman**

FRANCE

SERGE DASSAULT AND FAMILY

Serge surges

The outbreak of peace is tough on a company built to supply Mystère jets and Mirage fighters to the world. When Serge Dassault, now 65, took over Avions Marcel Dassault (now Dassault Aviation) on his father's death in 1986, he had to shutter plants and cut workers, many of whom had spent their working lives at the company. More may have to go.

Serge is living in the shadow of a legendary father, Marcel Dassault, an exceptional aeronautical engineer

who worked almost every day of his 94 years, becoming the richest man in France and possibly one of the most influential. Serge's struggle to finance the Rafale combat aircraft, due to enter the French air force in 1996 and the navy in 1998, indicates waning clout. So does Dassault's depressed stock price.

Yet Serge and his family return to the billionaire ranks this year. Serge has proved an able investor. He now owns 61.5% of Dassault Electronique

Jacques Langevin Sygma

Serge Dassault

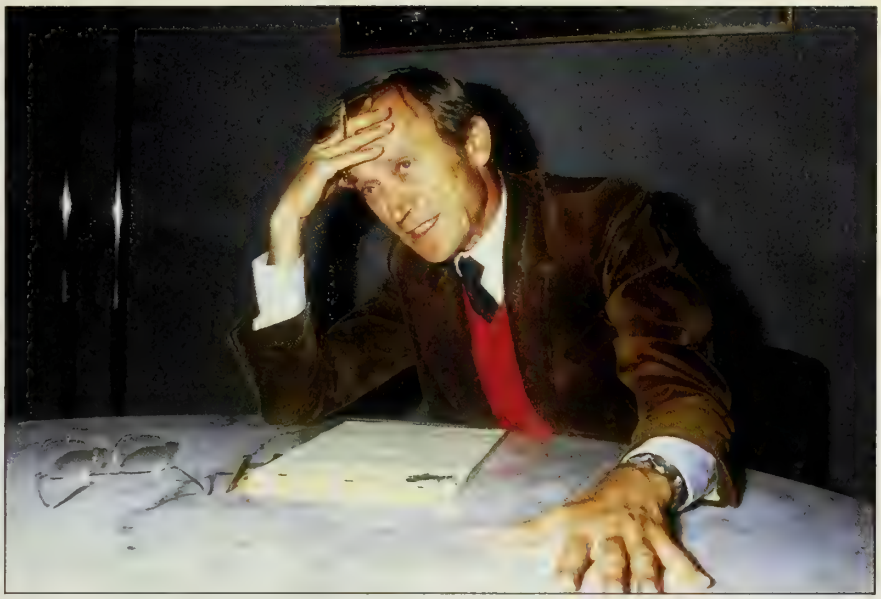
(missile guidance and electronic banking) and 28.5% of Intertechnique (aircraft electronics and computers). There's 20% of Europe 1 Communication, one of France's most popular radio stations; 15% of Institut Mérieux (AIDS research); and Château Dassault, in Bordeaux' St. Emilion region. Together Serge, his mother and older brother share a visible fortune worth $1 billion.—**Manjeet Kripalani**

SEYDOUX/SCHLUMBERGER FAMILY

Savvy strategist

Jérôme Seydoux stunned the Parisian business community when early this year his Chargeurs sold its 54% stake in UTA, his profitable private airline, to Air France for over $1 billion cash. The move was unexpected, but totally in keeping with Seydoux' often surprising—but shrewd—business moves. With 1992 approaching, France wants to consolidate its airline resources. Observers say Seydoux may have gotten a quid pro quo from the government.

Chargeurs also has 22% of the world market of the wool trading and



Jérôme Seydoux

Patrick Hamon Keystone Picture Group

combing industry and 12% of BSB (British Satellite Broadcasting). "My eye is turned on a horizon five years from now," Seydoux said recently, in a rare comment.

Normally, the Seydoux, and their cousin Schlumbergers, prefer to avoid the limelight. Brother Nicolas, who owns two-thirds of Gaumont, a successful Paris-based film company, represents the Seydoux on the board of oil services giant Schlumberger Ltd., which is the foundation of the family fortune.

The family owns about 23% of the company, and most of the 20-member third generation is spread across Europe and the U.S. Cousin Dominique de Menil is a benefactor of the arts in Houston. Altogether, they're worth $3.7 billion—and used to taking the long view.—**Manjeet Kripalani**

VUITTON FAMILY

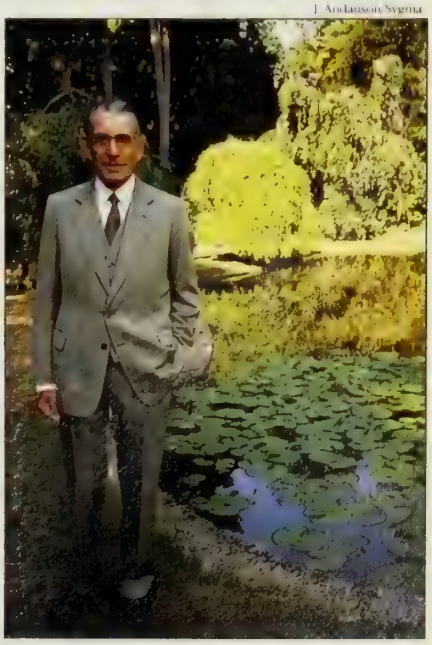
Trojan horse

Vuitton family patriarch Henry Racamier, 78-year-old husband to the original Louis Vuitton's great-granddaughter, sealed his own fate. Two years ago, LVMH (for Louis Vuitton Moët Hennessy), the luxury goods group Racamier built, was under attack. Looking for allies, Racamier invited Bernard Arnault, now 41, to invest in the company. But Arnault was a Trojan horse working for his own account.

After securing support from other companies that among them held 44% of LVMH, Arnault drove Racamier out of LVMH and installed himself as chairman. Racamier still retains his 17.4% holding in the company; his stake is still worth over $1 billion.

It appears unlikely that the formidable Racamier would build up a business to compete with LVMH. But he has Orcofi, the Vuitton family holding company, which recently bought 95% of Lanvin in equal partnership with L'Oréal. Orcofi also controls Gordon Choisy S.A., a leather tannery that has catered largely to Louis Vuitton, and will perhaps be looking around for new customers. Whether Racamier will hold on to or sell his LVMH shares keeps a lot of French investors guessing.—**Manjeet Kripalani**

J. Andanson Sygma



Henry Racamier

LORD NELSON AND MILSTAR

Trafalgar, 1805, the battle that was to lead to the eventual undoing of Napoleon, was won because Admiral Horatio Nelson had a secret weapon: signal flags.

The technique of communicating over long distances by coded flags had only recently been invented by the Royal Navy. It revolutionized naval warfare.

The system enabled the British ships to cover vast expanses of ocean, looking for the enemy, while remaining in close contact with the fleet commander. It also allowed tactical flexibility once battle had been joined. Other navies were bound by rigid battle plans.

The Battle of Trafalgar, by Clarkson Stanfield, 1836. The Institute of Directors, London

agreed upon in face-to-face councils long before the first broadside. They were confounded by the British and their talking flags.

The result of Trafalgar, and in large part this communications system, was that Britain enjoyed undisputed rule of the seas and over a century of relative peace; a *Pax Britannica*.

In modern warfare, command, control, and communication are as decisive factors as they were two centuries ago and even more complex. History is peppered with anecdotes of communication breakdowns leading to fiasco. It has been called the fog of war.

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MULLIEZ FAMILY

Hypersuccess

Recently Gérard Mulliez' Groupe Auchan opened hypermarkets in Chicago and Houston, and company spokesmen cheerily say they are doing very well. But Mulliez wants to give the retailing concept time to mature; Auchan plans to wait six years before it builds another hypermarket in the U.S.

Having built his first supermarket in France in 1961, Mulliez currently

F. Scetemond/Le Nouvel Economiste

Gérard Mulliez

has 42 hypermarkets in France (5% of that country's total), 15 in Spain under the name Alcampo, and 1 in Italy, started last year. He also owns 178 supermarkets and 140 restaurants, pizza parlors and cafeterias. Auchan revenues are over $8 billion, second to publicly traded competitor Carrefour.

Mulliez recently obtained permits for a new hypermarket at Metz, in eastern France, a stronghold of the Bouriez family's Cora group. Blood in the offing? Perhaps. So Auchan's real push is more likely to come in Spain and Italy, where there are few strong local competitors.

As Groupe Auchan thrives, so do its employees, who own 17%. Mulliez has the rest, and 45% of Trois Suisses, France's second-largest mail-order company. The family also owns Phildar, a knitting yarn retailer (sales, $473 million) started by Gérard's father. The Mulliez clan is now worth $1.6 billion.—**Manjeet Kripalani**

BOURIEZ FAMILY

Testing time for the "genius"

Smaller than the Mulliez' Auchan hypermarket chain *(see Mulliez, above)*, the Bouriez family's Cora-Revillon-Editions Mondiales Group is girding for action. President Philippe

Marc Bertrand/Le Nouvel Economiste

Philippe Bouriez

Bouriez, 56, is obviously taking seriously widespread predictions that consolidation will leave only half the ten large hypermarket groups in France alive.

Early this year Bouriez reportedly put parts of his Revillon luxury-goods group, acquired in 1981, on the block. Already, Japanese have bid on Karl Lagerfeld couture and Caron perfumes. Groupe Bouriez will be left with cash, and its core business of 54 hypermarkets and 150 supermarkets (revenues, $5.5 billion), and Editions Mondiales, publisher of popular beauty, fashion and TV magazines.

Cora's apparent strategy is to use the cash to expand in France through acquisition. It has already bought some small chains in eastern France, and is reputed to be interested in taking over Euromarche, a $4.3 billion revenues moneyloser. Acquiring existing stores avoids the *Loi Royer*, a restrictive French law meant to protect petit bourgeois shopkeepers.

This, then, will be testing time for Philippe, who has long run the company owned by him and his three siblings. "He's a kind of genius," designer Karl Lagerfeld once exclaimed. That was when things were going well. Now it will be tougher. Cora looks to be worth some $1.2 billion, today. Stay tuned.—**Manjeet Kripalani**

PEUGEOT FAMILY

Battle plan

While others prepare for 1992 by merging or acquiring, France's largest private-sector company is getting ready to fend off the Japanese.

To do that, Peugeot S.A. is willing to endure some pain. Europe's number three carmaker (after Volkswagen and Fiat) has already taken a disruptive seven-week strike last fall. Its relatively low-paid workers saw growing profits and demanded a share. Management eventually yielded a grudging raise of one-third what the workers sought.

Grudging, because there's a lot at stake. Even as some European carmakers lobby the EC against Japanese post-1992 imports, the Japanese furiously build factories within the barriers. Peugeot's answer: Push volume, quality, exports, its expensive new model 605; build in neighboring countries; and most of all, hold down costs.

The family, which mostly lives in Paris, gratefully supports their Chairman Jacques Calvet, 58, former head of Banque Nationale de Paris. A string of heavy losses duly became profits,

Marc Bertrand/Le Nouvel Economiste

Pierre Peugeot

$1.8 billion last year with the strike, and an estimated $2.2 billion this year. Noninterfering Pierre Peugeot, 58, serves as general manager under Calvet, and other Peugeots work in the company; three are on the supervisory board. All the better to mind the family's $1.6 billion investment.—**Manjeet Kripalani**

LILIANE BETTENCOURT

Rooting for Owen-Jones

Founded by Liliane Bettencourt's father, L'Oréal is run today by non-family-member Lindsay Owen-Jones, a dapper, 44-year-old, Oxford-educated Welshman, who is chairman. Owen-Jones is expanding L'Oréal's overseas businesses, in earnest: 63% of L'Oréal's $4.8 billion revenues now comes from outside France. And there is still ample room to grow. L'Oréal has only 7% of the U.S. market, which at $16 billion in estimated revenues is the world's largest cosmetics market.

Owen-Jones runs things with pretty

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Liliane Bettencourt

much a free hand. Liliane Bettencourt, 67 and the richest woman in France, plays no role in the company. Her husband, André, a former Gaullist industries minister, is a member of the company's strategic committee. Their son-in-law Jean-Pierre Meyers is a director.

Investors have bid up L'Oréal's market value by 45% since last year, making the Bettencourt holding worth $1.6 billion. In 1974 Bettencourt sold 27% of her L'Oréal holding to Switzerland's Nestlé, for stock; she currently owns 3% of Nestlé. Add up the pieces and Liliane is worth $2.2 billion. Nestlé has the option to purchase Liliane's remaining 28.3% of L'Oréal in 1994—at significantly higher prices, if Owen-Jones keeps doing a good job.—**Manjeet Kripalani**

SPAIN

MARCH FAMILY

How to invest in Spain

The Marches believe Spain will outperform the rest of Europe. Spanish corporate earnings are expected to grow 13% this year, only slightly lower than last year. "Why the hell would they bother going abroad?" asks Lawson Steele of UBS Phillips & Drew, who recommends Corporación Financiera Alba as an inexpensive way to acquire a diversified Spanish portfolio. (It was recently trading at a 20% discount to net asset value, compared with the Spain Fund's current 13% premium.)

The March brothers—Juan, 50, and Carlos, 44—have carefully distanced themselves from the image of their father (known from his early days as the Balearic Smuggler) as one of Franco's financial advisers. Between the brothers' 55% of Alba and private interests, the family fortune is worth $1.5 billion.

C.F. Alba, the public part of the March family's empire, is 85% invested in Spain; about half that is invested in stocks like Uralita, Spain's largest construction materials company, and Cerveza San Miguel, the brewery.

A.G.F. Wesselbe Camp

Carlos March

Alba also has a 13% stake in Finanzauto, the Spanish distributor of Caterpillar equipment. Private holdings include 100% of Banca March and 15% of Spain's new pay-TV channel. C.F. Alba's foreign connections: 16% of Virginia's Signet Bank and 4.6% of France's Carrefour hypermarket chain.—**Katherine Weisman**

BOTIN FAMILY

Muscling in

The Botíns' Banco Santander, now run by Emilio Botín Jr., 55, is traditionally one of Spain's strongest and most profitable banks. Now, with interest rates at 15%, it is using its muscle to take market share from competitors. For instance, where Spanish banks offered as little as 1% on checking accounts, last September Santander started offering 11%. By May deposits had more than doubled.

Elsewhere, the bank is exchanging minority shareholdings with allies abroad. There was Royal Bank of Scotland in 1988, with which it is out buying pieces of smaller European banks. Santander also acquired 3% of Chicago's Kemper Corp. Combining Kemper's insurance base and Santander's strong Latin American presence, the duo have acquired a Chilean insurance company. Meanwhile, Japan's Nomura Securities bought 1.5% of Santander's stock and helped list it on the Tokyo exchange.

Emilio Botín Jr. and Sr.

This year Emilio Botín Sr. retired from the board, leaving his son on watch: "To the extent that Santander has caught other banks unaware, it is reaching an objective," says Jaime de Piniés, Chase Manhattan's chief economist in Madrid, about the attitude to be expected now that Emilio Jr. is squiring the family's fortune of $1.4 billion.—**Katherine Weisman**

SWEDEN

FREDRIK LUNDBERG AND FAMILY

Smart timing

When we asked billionaire developer and investor Fredrik Lundberg what the hottest market in Europe was these days, his answer was

Ulf Sirborn/Pressens Bild AB

Fredrik Lundberg

West Germany. So why does he have only one small office building there?

Partly, it's timing. Until two years ago the Swedish government didn't permit overseas property ownership for Swedish real estate companies. "We could do developments and construction, but then we had to sell the projects." Then Sweden eased up, and Lundberg started looking. But he hasn't done much, because he thinks

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the German market is too overheated, particularly in Frankfurt and Munich.

Lundberg, with $130 million in properties outside Sweden through a Dutch holding company, has another reason for not moving precipitously. Lundbergföretagen, the firm begun in 1944 by his father, continues to invest in underpriced basic Swedish industries. Since 1988 it has spent $350 million for a 25% stake in MoDo, the Swedish paper and pulp company.

Lundberg's pick for real estate investing these days is London, where "yields have come up and good projects have come to market." It's in line with his philosophy of going against the market. Being a little contracyclical hasn't hurt: He is worth over $1 billion.—**William Heuslein**

HANS AND GAD RAUSING

Profitable packaging

Hans Rausing, 64, chairman of Tetra Pak, the giant family-owned cartonmaker, doesn't discuss margins. Instead, he likes to talk about the social benefits of his firm's unique method of packaging liquids (such as milk) so aseptically they can sit on shelves for months without refrigeration. "This is not only a question of making money. The creation of something which is needed by millions of people is necessary. I don't like zero-sum games."

This non-zero-sum game makes a very pretty penny for Hans and his brother, Gad, 68, vice chairman. Last year Tetra Pak's revenues from 109 countries were $3.7 billion. And profits? Well, if Rausing won't discuss margins, others will. Aaron Brody, management consultant with Schotland Business Research of Princeton, N.J., considers Tetra Pak the most profitable folding carton maker in the world: "What goes into their plants costs 6 cents to 7 cents, total, and what goes out sells for 10 cents," for an operating margin approaching 40%. Other carton companies, Brody explains, are lucky to make 20%. Moreover, the company's sales grew by a healthy 18% last year.

Gad Rausing

All this makes the Rausings one of the richest families in the world. Worth $9.6 billion.—**William Heuslein**

Stefan Wallgren Presscens Bild AB

Hans Rausing

INGVAR KAMPRAD

A world to tap

Ikea founder Ingvar Kamprad, 64, amassed his $2 billion-plus offering inexpensive but solid Scandinavian furniture to younger and working-class families. Those demographic slices are shrinking, and the growing affluent want more upscale stuff.

But Ikea has only 87 outlets spread across 21 countries, and is by no means a mature business. There are only a dozen of its showroom-warehouse stores selling knockdown furniture in the U.S. and Canada. Look for the company to open two to three new stores a year here for the next 10 to 15 years. Ikea started selling in Budapest in March—to an enthusiastic response. And there are plans for stores in Warsaw and Leningrad as well. Last year's sales topped $2.7 billion, up 14% from 1988—a far cry from 1953, when Kamprad, a Swedish farm boy, opened a single store in little Almhult, Sweden.

Hans T. Dahlskog Presscens Bild AB

Ingvar Kamprad

Kamprad, a tax exile based in Lausanne, Switzerland, controls Ikea through Copenhagen headquarters and a Dutch foundation. He also owns Ikano, a family holding company in Sweden for Ikea's credit card business, real estate and other investments.—**William Heuslein**

HOLLAND

DREESMANN FAMILY

Bleak outlook

Anton Dreesmann, the professor of economics who built his family's department store chain into diversified giant Vendex International, is facing his biggest challenge ever. Profits have dropped steadily to $50 million last year, from $90 million in 1988 and $120 million in 1987. Worse yet, last year's net was little more than results consolidated from its 33.5% holding in the U.S.' booming Dillard's department store chain.

In Holland, the key Vroom & Dreesmann retailer is losing money and market share by not keeping up

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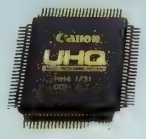

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Georgia-Pacific

with consumer trends—a mortal sin. Vendex is looking to sell its education, oil and gas, travel, and Brazilian operations. Other "noncore" operations are in for similar "strategic reorientation," supposedly by next year.

The group's health is as fragile as

ANP

Anton Dreesmann

that of Anton Dreesmann, 67, who struggled back from a stroke to throw out a handpicked successor whose restructuring started with large-scale firings. "Uncle Anton" couldn't bear to sack old employees; he's been finding them "alternative placement."

Can Vendex turn around staffed with the people who helped get it into trouble in the first place? The future is uncertain.—**Manjeet Kripalani**

FENTENER VAN VLISSINGEN FAMILY

Family comes first

Will they go public? The speculation goes on. Never, says Paul, at 49 youngest of the three Van Vlissingen brothers and head of their major business, SHV N.V. Not as long as family is around.

Now the largest private business in Holland, SHV traces back to the 18th

ANP

Paul Fentener van Vlissingen

century, had a coal monopoly in the 19th, and today is the EC's largest independent distributor of liquefied petroleum gas. But it earns 65% of revenues from its 62-store Makro chain of self-service wholesalers in Europe, Asia and South America.

Brother John, 51, chairs the family's Noro Group, a money manager to the Van Vlissingens and other superrich Europeans, tending its interests in real estate, financial and travel services. It has doubled its asset base to $7 billion in two years. Noro has a $1 billion property portfolio in the U.S.

Frits, 56, the eldest, manages Amsterdam-based Flint Holding, believed to be the family holding company, and several minor interests. The three brothers and their seven children control 50%; immediate relatives, 15%; more distant relations, the rest. Shares trade only among family members; every month a banker assesses the group's theoretical market value for them. No one will say, but FORBES thinks that the value was above $1.6 billion.—**Manjeet Kripalani**

BRENNINKMEYER FAMILY

Family ties

It's a family, some 200 strong, once called "the richest shopkeepers in the world." Devoutly Catholic, the Dutch-German clan is based in Amsterdam and the family estate in West Germany, where they remain true to the family motto, "Unity makes strength." FORBES estimates their fortune at $5 billion.

The base of the Brenninkmeyer family wealth is the C&A department store chain in Holland, West Germany, the U.K. and Brazil, begun 150 years ago by cloth peddlers Clemens and August Brenninkmeyer. Today the family is headed by Roelandus Brenninkmeyer, a 1971 Harvard Business School graduate.

The 150 C&A stores in West Germany have over $2 billion in sales and cater to a low-end market; recent East German immigrants head straight for them. In the U.S., after stumbling badly at first, they have rebounded to 1,100 stores nationwide and estimated $2 billion revenues in eight regional chains with names like Uptons, Steinbachs, the Lodge and Miller's Outpost.

While the family's women reportedly enjoy equal entitlement to wealth, the men run the business. The sons are expected to join the family company or join a real religious order.—**Manjeet Kripalani**

SWITZERLAND

KLAUS JACOBS

Philip Morris makes a billionaire

The price announced two weeks ago for the Swiss coffee and chocolate company Jacobs Suchard by Philip Morris makes Jacobs, 53, a billionaire. As part of the deal, Jacobs' Colima holding company, which holds a majority of Jacobs Suchard, goes to the American consumer products giant for about $1.4 billion—and Jacobs still keeps the American confectioner E.J. Brach (now losing money), his own Panamanian bank and

RDZ

Klaus Jacobs

chocolate trading companies.

In the early 1970s the German-born Jacobs took over the family's Bremen-based Joh. Jacobs & Co., founded just before the turn of the century and already a leading European coffee roaster. Jacobs moved to Zurich in 1973, planning to merge with a Dutch company and run the business from Switzerland. The merger fell through, but his second wife was Swiss, so he stayed in Zurich and eventually became a Swiss citizen.

By 1981 his coffee roaster was up to $2 billion in sales, but Jacobs wasn't satisfied. Chocolate was a high-margined commodity he understood. In 1982 he acquired the Swiss owner of Milka and Tobler brands. In 1986 he added U.S. confectioner E.J. Brach for $730 million. In 1987 he outbid Nestlé for Belgium's Côte d'Or chocolate company. In 1988 he lost a takeover battle for Britain's Rowntree to Nestlé, but the wily Jacobs came out $300 million ahead.

For some Swiss, selling out the famous Swiss chocolate brands Tobler and Milka to the American Philip Morris seems like selling the Matterhorn. But Jacobs has had only a slim

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voting majority; further mergers would put him below 50%. So when he got a friendly offer from somebody else who appreciates the value of a name brand, he grabbed it. Over 18 times earnings looked pretty sweet to him.—**Philip Glouchevitch**

WALTER HAEFNER

Buying on weakness

As the biggest shareholder of U.S. software company Computer Associates, Haefner didn't flinch when the stock took a dive from $22 a share to under $11 last year. Apparently, the fall was due to the acquisition for stock of troubled Cullinet Software. Haefner, who wanted to maintain his stake at around 21%, picked up shares

Urs Siegenthaler

Walter Haefner

last fall for an average price of $17. The stock recently traded at $15.

Haefner got into computers when his Swiss car distributor, AMAG, started a computer-services subsidiary in the early 1960s. He sold it for stock to a Dallas company, which went bankrupt in 1983. Haefner bought majority control and revived the company—and then sold it to Computer Associates in 1987, giving Haefner his 21% stake, lately worth $580 million.

Haefner, now 80, built his fortune from the ground up. He saved 26,000 Swiss francs and built charcoal generators for cars during the privations of World War II. After the war, Haefner sold jeeps and then Volkswagens. AMAG now has exclusive import rights for VW, Audi and Porsche, and much valuable real estate under the dealerships.—**Philip Glouchevitch**

MAUS-NORDMANN FAMILY

The Mauses who roared

The Maus and Nordmann cousins, whose Geneva-based Maus Frères S.A. is Switzerland's leading department store chain, took advantage last year of the troubled U.S. retailing market to pay $453 million for ailing Chicago-based department store chain Carson Pirie Scott. New to our list, the Maus and Nordmann cousins are: Jacques, 61, Bertrand, 58, and Olivier, 46 (Maus); plus Gérard, 60, and Philippe, 58 (Nordmann).

Maus Frères has been active in the U.S. since 1938 through Milwaukee-based subsidiary P.A. Bergner & Co. Carson Pirie Scott has $1 billion in sales and over 30 stores—including 4 in the Chicago area—but has lost money the past three years. Bergner, by comparison, did $470 million in sales with 31 stores.

Ernest Maus founded his first store in 1892 in Biel, Switzerland. Ten years later Leon Nordmann founded his first department store in Lucerne. The chains grew separately until Ernest Maus' daughter Simone married Nordmann's son Robert in 1929, when the stores covered Switzerland.

Today, it is the children of the Maus-Nordmann marriage, Gérard and Philippe, who run things with their three Maus cousins. They expanded the family's holdings into France in 1972 when they bought voting control of Paris-based Au Printemps S.A., which today does $3.8 billion in sales. Altogether, the family's holdings are thought to be worth over $1 billion. Two years ago Philippe Nordmann raised a lot of money for AIDS research, and for his efforts was voted Genevan of the Year by his townsmen.—**Philip Glouchevitch**

SCHMIDHEINY FAMILY

Leica redux

If you start hearing the famous old Leica name again, thank Stephan Schmidheiny, 43. Stephan's Anova Holding has swapped two construction materials companies with brother Thomas, 45, for undisclosed cash and the struggling optics and camera maker, formally named Wild Leitz.

Stephan has merged Wild Leitz with the smaller, British-based Cambridge Instruments, intending a turnaround as Leica Plc. (combined sales, $1 billion). The cameras are only 10% of the new company's revenues; its strength is in other precision instruments, such as microscopes.

But the new company clearly has ambition as well as a bankable brand name. It'll be a challenge for Stephan, who until now has distinguished himself primarily as a shrewd if low-profile investor, buying—and sometimes selling—sound, well-run companies.

Thomas Schmidheiny

Daniel Boschung

Brother Thomas attracts less attention, though he controls the world's largest cement company, Holderbank (1989 sales, around $3.5 billion).

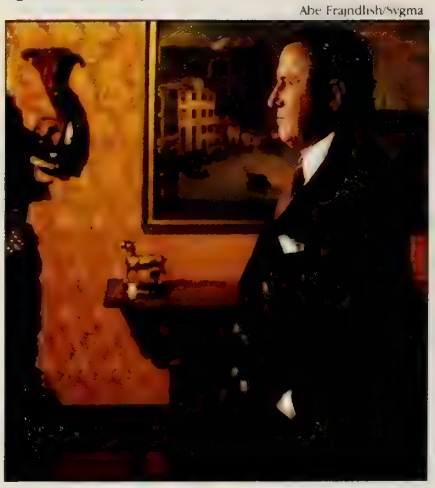
The two brothers took over their father Max's industrial empire in 1984. A third brother, Alexander, 40, owns the California winery Cuvaison and a ski-wax maker. A second cousin, Jakob, 46, has his own diversified company. Their combined worth: over $2 billion.—**Philip Glouchevitch**

HANS HEINRICH THYSSEN-BORNEMISZA

Sí, señora

The latest rumor, in several newspapers, had Baron Heinrich Thyssen-Bornemisza selling his Villa Favorita residence-cum-art-museum in Lugano for $30 million. "Untrue," said a spokesperson. But the baron has been spending a lot of time in Spain lately. So has much of his prized $1-billion-plus art collection of old and new masters. And he did sell his splendid Daylesford residence in Brit-

Abe Frajndlish/Sygma



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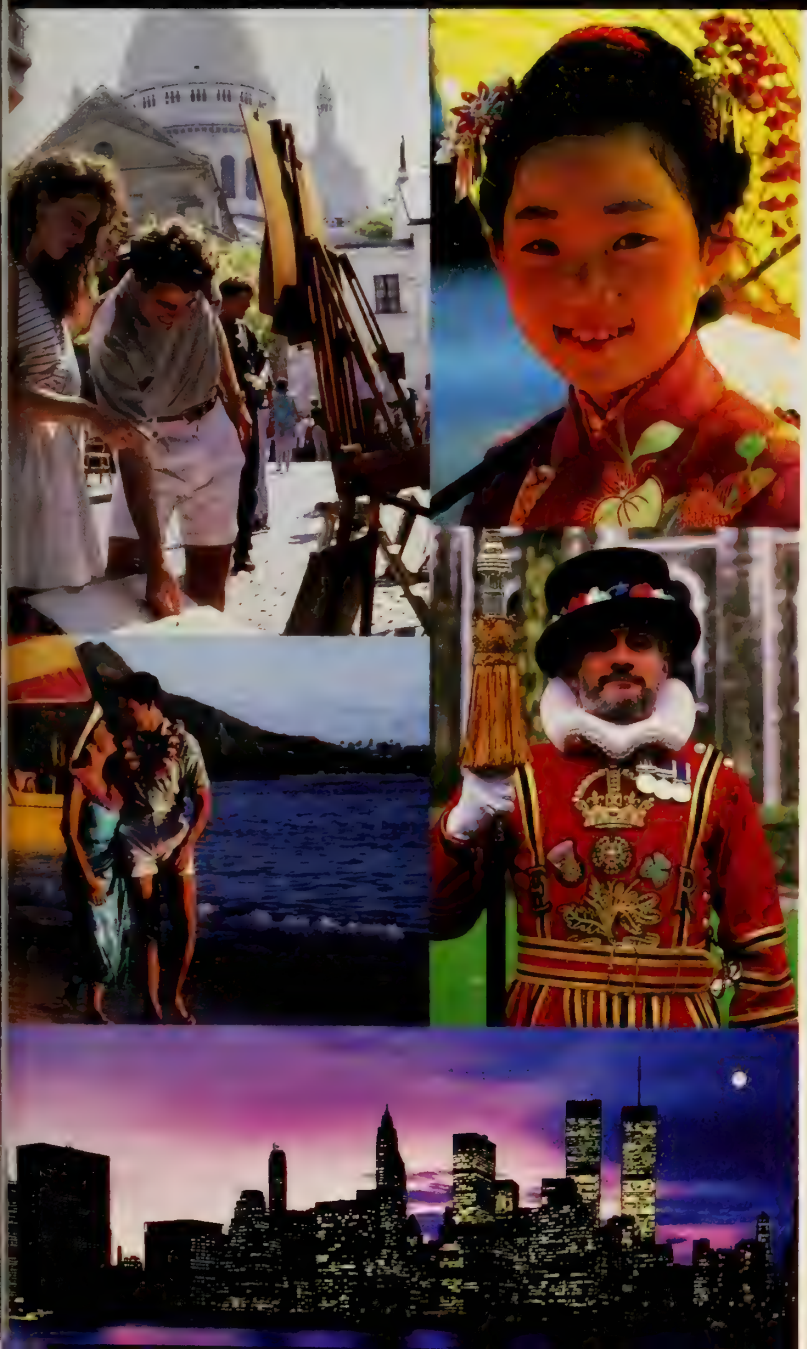

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ain last year, supposedly the baron's favorite. But his latest wife, Carmen, 46 and a former Miss Spain, doesn't like Britain. The couple hangs out in Madrid and on the Costa Brava.

The baron, 69, is the grandson of the August Thyssen who built the famous German steel company and a shipping empire. The baron's father denounced Hitler in 1939 and moved to Switzerland with the shipping companies and his vast art collection. The shipping has been replaced by farm machinery, pumps and other goods. Business is down lately, but the Thyssen-Bornemisza Group, managed by 39-year-old son George, has the Thybo financial investment arm, which reportedly brings in half its roughly $50 million earnings (total estimated sales, $3 billion). The businesses may be worth over $500 million.—**Philip Glouchevitch**

HOFFMANN FAMILY

Conducting business

The Swiss marked the end of an era when Maja Sacher-Stehlin died last August at 93. The widow since 1932 of Emmanuel Hoffmann, son of Hoffmann-La Roche founder Fritz Hoffmann, she devoted six decades to patronizing the arts. In 1934 she remarried, to well-known conductor Paul Sacher, also a key contributor to her native Basel's cultural heritage.

Now Paul Sacher, 84, is the elder statesman of the family, which holds an undisclosed majority of the key registered shares of Hoffmann-La Roche, now called Roche. He is on the board with two other family members from Maja's first marriage: eldest son Lukas Hoffmann and son-in-law Dr. August Oeri. Sacher's role appears secure: Swiss magazine *Bilanz* reported Sacher personally acquired a chunk of the company when the family repurchased its controlling interest in 1945. (Maja's brother-in-law Alfred Hoffmann had sold his shares to Basel Handelsbank, dropping the family's holding to below 50%.)

R. Lindersen/RDZ

Paul Sacher

The family's special voting shares, worth billions, anchor Roche: It can make strategic acquisitions like the recent purchase of 60% of America's Genentech for $2.1 billion without having to look to the stock market for approval.—**Philip Glouchevitch**

LIECHTENSTEIN

MARTIN HILTI AND FAMILY

Fastenating

In the principality of Liechtenstein, Martin Hilti, 75, has made a big fortune. His Hilti A.G., based in Schaan, near the capital of Vaduz, chalked up $1.4 billion in worldwide revenues last year, producing fasteners for heavy construction to do-it-yourself home renovators. This year the value of the Hilti family's shares rose to over $1 billion.

Martin Hilti

Hilti, the ninth of 11 children, studied engineering and mathematics, and in 1939 began working in his brother Eugen's auto shop. In 1941 they founded Maschinenbau Hilti to make auto and truck components.

Hilti took advantage of postwar reconstruction in neighboring countries. He developed guns—the peaceful kind—that shoot bolts, nails and screws into steel or concrete, eliminating tedious drilling. By the mid-1960s Hilti had exhausted the labor pool in Liechtenstein (today he employs about one-fourth of Liechtenstein's industrial workers). Production sites in neighboring countries and the U.S. followed.

The 1970s were rough. The oil crisis slowed construction, and Hilti had a heart attack. Son Michael, now 43, became the heir apparent, reportedly causing strife among other executives. Nevertheless, after he joined the board things improved. Hilti's second son, Markus, 38, helps run the Western Hemisphere operations—one-third of sales—from Tulsa.

Can Hilti capitalize on the expected reconstruction boom in Eastern Europe? "Already for many years," Hilti told FORBES, "we have a well-established partnership with local distributors in most Eastern European countries." Look for even bigger things ahead for Hilti.—**Philip Glouchevitch**

AUSTRIA

SWAROVSKI FAMILY

Rhinestone legacy

The Swarovski family built a fortune on rhinestones, the poor man's jewel. But today the family company is pushing higher-margin items to boost business. Last year the family created a new company, Daniel Swarovski S.A.R.L., based in Paris, to sell fashion accessories and designer crystal to department stores.

The handbags, gloves, belts and so forth are selling better than expected. But the designer crystal—mostly objects like vases and candlesticks selling for $1,000 to $20,000—has been slower to catch on.

The main Swarovski enterprise is in the quaint Tyrolean village of Wattens, Austria, where founder Daniel Swarovski settled in 1895. Today the company is run by the fourth generation, and their name can be found on jewelry and crystal in every corner of the globe. With distribution outlets throughout Asia, Europe and the U.S., the company had sales last year of over $850 million. In 1987 it bought 50% of the largest U.S. jewelry retailer, Zales (1989 sales, $1.4 billion). Last year Zales in turn bought the second largest, Houston-based Gordon's Jewelers. —**Philip Glouchevitch**

Kevin Galvin

Daniel and Manfred Swarovski

GERMANY

SIEGFRIED OTTO

He makes money

Siegfried Otto really knows how to make money. No relation to Werner Otto and his family *(which see)*, Siegfried, 75, owns the world's leading printer of bank notes, Giesecke & Devrient GmbH. Its principal papermaking facility, a heavily guarded plant in Bavaria, is considered the best of its kind in the world, implanting special watermarks and secret threads.

Stephanie Pilling Mohs/In press

Siegfried Otto

Business is booming. An initial 40 billion new deutsche marks must be run off to service the East German currency reform. How profitable is Giesecke & Devrient? The comparable but state-owned and presumably less efficient German money printer in Berlin shows margins of 12.7%. G&D should do at least as well as that, on revenues believed to be about $750 million.

G&D was founded in 1852 in Leipzig, and began making bank notes in 1854 for the Weimar bank. The company was destroyed in World War II, but in 1948 Otto revived it and moved operations to West Germany. Last year Otto bought out most of the remaining family members who still held minor shares.

DASSLER FAMILY

Sad ending?

In the late Horst Dassler's luxurious guest house in the Alsatian town of Landersheim, athletes, sport dignitaries and journalists used to cut deals. Dassler was criticized for buying sports champions with his money until his death three years ago, even as the head of Adidas turned amateur sports and running shoes into the biggest sporting goods company in the world—1989 sales were $1.9 billion, plus licensing and royalty revenues of some $800 million.

Horst Dassler constantly cultivated sports contacts—and it paid off. At a typical Olympics the three-stripe label graces, on average, 75% of the athletes. But back in his little German hometown of Herzogenaurach were people he couldn't cultivate—the other branch of the Dassler family and their Puma label. Horst's father, Adolf, and his uncle, Rudolf, split after an argument in 1948, and Rudolf founded Puma on the other side of the town's Aurach brook. Horst, Adolf's only son, built Adidas into a world player but did not take control until the death of his parents in 1985—only to die two years later at the age of 51. Since then Adidas has been hurting. The company lost money in 1989. Now the heirs want to take it public.

CHANTAL GRUNDIG

Love, death and Stiftungs

The so-called Lion of Furth, Max Grundig, died last December at 81, and his fortune passed to his 41-year-old widow, Chantal, with nary a pfennig in taxes. He had set up the Grundig Stiftung, or foundation, strictly to shelter his stakes in Dutch electronics giant N.V. Philips (6%) and Grundig A.G. (68%) and his four luxury hotels from inheritance tax. Chantal is the foundation's chief executive.

The widow received her first Grundig—a radio—at age 16. By then Max was a living legend in Germany. He made radios in the 1930s, and, after the war, do-it-yourself radio kits that got around an Allied Occupation ban. From that grew his full-scale electronics concern. He obstinately tried to create a European standard for VCRs but was swamped by Asian competition. Philips bailed him out in 1984 but exacted voting control.

Chantal Grundig

Andrea Schick Bunte

Max met Chantal when he was looking for an assistant for his first wife, to whom he had been married 40 years. Chantal, from French-German Alsace, was to teach Mrs. Grundig French and accompany her on trips. Wife number one lost both a husband and a fortune (aside from a divorce settlement) when Chantal became pregnant. Max and Chantal's daughter, Maria Alexandra, now 10, was born when Grundig was 71. He also adopted Chantal's grown daughter Valérie from a previous marriage. Today Valérie and husband Stefan Lauda run the Grundig luxury hotel in Fuschl, Germany.—**Philip Glouchevitch**

HANS GERLING

Remember Herstatt Bank?

Who could forget? It took Hans Gerling 12 years to reverse the 1974 disaster that nearly destroyed him and reverberated around the world. But in 1986 he did it: He bought back control of his family in-

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*US$44,797 million; net sales for the year ending March 31, 1990. US$1=¥158.

HITACHI

Hitachi, Ltd. Tokyo, Japan

surance company, Gerling A.G., Germany's fourth-largest insurer.

Herstatt Bank, 81% owned by Gerling, failed because of currency speculation. To satisfy creditors, Gerling had to sell 51% of the family business to an investor group, which later sold out to Gerling's pal Friedrich Karl Flick *(which see)*.

Almost from the start of the affair, Gerling was out to buy back control. When Flick sold his industrial empire in 1986 he agreed to sell Gerling back control of his company.

The insurance business—organized into four separate companies today—

Wolf Prange

Hans Gerling

has been Gerling's whole life. Now 75, he's put the past behind him to the tune of building a net worth that may exceed $2 billion.

PORSCHE FAMILY

More Porsches than one

If they wanted to, the Porsches could be a lot richer than they already are. They need only give in and sell their Stuttgart-based sports car maker to the Japanese or American car companies waving billion-dollar buyouts at them. But that is unlikely for the Austrian-German clan so long as Ferdinand (Ferry) Porsche is still alive. The 80-year-old patriarch has retired to honorary chairman of the board but still holds tight rein on the family shareholders, who a few years ago openly squabbled over power and money.

Each family member has one-ninth of Porsche A.G.'s shares. Members include Ferry's sister Louise Piech, born Porsche and now 85, and Ferry's three sons: the 55-year-old Ferdinand Alex-

Ferdinand (Ferry) Porsche

Wolf Prange

ander (Butzi), successful designer and successor to his father's job as chairman of Porsche A.G.; Hans-Peter, 50, partner in Butzi's design studio; and Wolfgang (Wolfi), 47, exclusive dealer of Yamaha motorbikes in Austria and France.

The car company is only one side of the family's wealth. The other jewel is far less known: Porsche Holding in Salzburg. The far-reaching conglomerate—which Louise Piech, despite her considerable age, runs with a firm hand—has DM 3.5 billion in sales, more even than the DM 2.5 billion of the car company. The largest private holding company in Austria is general importer of Volkswagen, Porsche and Audi; runs a chain of stores; has fingers in leasing, financing and insurance; owns Stuttgart-based data processor Taylorix and, lest we forget, Schmittenhohenbahn A.G., the most profitable cable-car lift in Austria. The family is worth over $1 billion.

REIMANN FAMILY

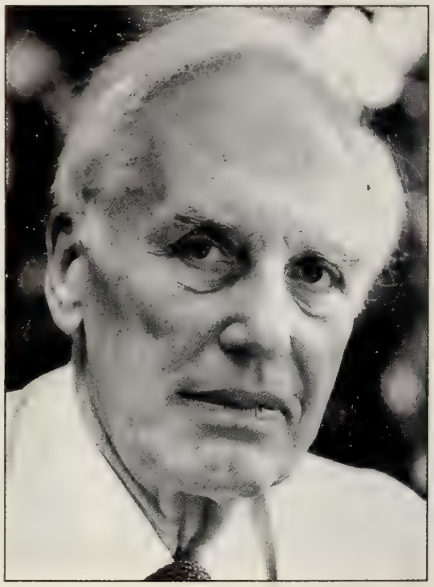
Calgon's heritage

The familiar Calgon brand of water softeners and bathwater additives has an unfamiliar origin: the Reimann family, owners of Joh. A. Benckiser GmbH, a maker of detergents and other cleaning chemicals. It's lately been busy acquiring European companies in that business and in cosmetics.

In May the firm paid $355 million to SmithKline Beecham for well-known European cosmetics companies such as Lancaster and Margaret Astor. Prior to that, Benckiser had acquired consumer products companies in Spain and Italy. With the acquisitions have come rapid growth: In 1988 the company reported cash flow of some $120 million; just in the first half of last year, it reached an impressive $130 million.

Founded in 1823, Benckiser is Germany's oldest chemicals company. Since the death of patriarch Albert

Marianne Wiedenfeld

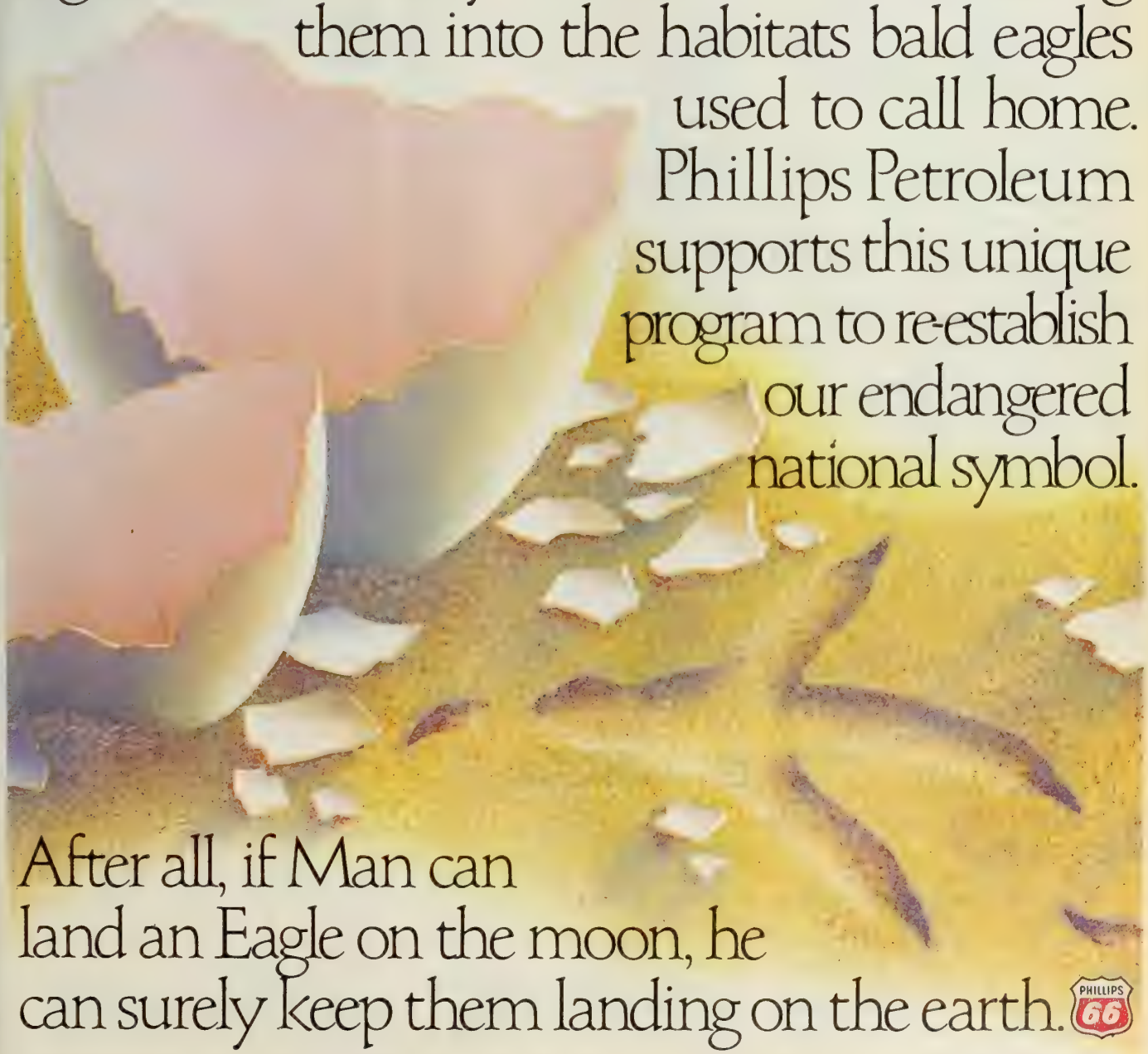


Albert Reimann

Reimann six years ago his nephew Gerd Reimann-Dubbers has headed the supervisory board. Until a few years ago the company's mainstay product was citric acid, but the new generation is clearly consumer-oriented. You may hear more from them in the future: For $106 million, the company recently bought back the U.S. rights to its Calgon brand, again from SmithKline Beecham.

The eagle has landed.

In Oklahoma and Mississippi. Georgia and Alabama. Where few bald eagle nests have produced young in the last 50 years. Using precious eggs and dedicated effort, the Sutton Avian Research Center is successfully raising eaglets from fuzzy to fierce. And releasing them into the habitats bald eagles used to call home. Phillips Petroleum supports this unique program to re-establish our endangered national symbol.



After all, if Man can land an Eagle on the moon, he can surely keep them landing on the earth.

PHILLIPS 66

For more information, contact the George Miksch Sutton Avian Research Center Inc., P.O. Box 2007, Bartlesville, OK 74005, (918) 336-7778.

GRETE SCHICKEDANZ

Looking to the East

Schickedanz took over the company founded by her husband shortly after the war, and took advantage of postwar reconstruction in Germany to make her catalog business mushroom. Now she'll try to do it again in Eastern Europe and the Soviet Union, where reconstruction of a different sort is under way. A joint venture with two Soviet partners has Quelle

Staedle/DPA

Grete Schickedanz

printing a Russian-language catalog. Russians with convertible currencies can order, Quelle will truck to Moscow, and the Soviets will deliver from there. There already are similar deals with Poland, Hungary, Yugoslavia and Bulgaria.

On the Western front, Quelle has catalogs in Spain and Wisconsin and a television home shopping venture in Germany. Schickedanz rounds out her family holdings with retail stores Sinn and Leffers, some manufacturing, the Coca-Cola concession for northern Bavaria and financial services.

For Grete Schickedanz, 78, owning the family mail-order business means not having to be second-guessed. Last year she abruptly replaced her 46-year-old chief executive officer, who had come from McKinsey & Co. The lively widow, who is said to choose the Quelle catalog models personally, wants to prune the specialized retail stores of non-Quelle names like Technorama (electronics) and put back the emphasis on the successful Quelle logo.—**Philip Glouchevitch**

OTTO FAMILY

Seeking rich markets

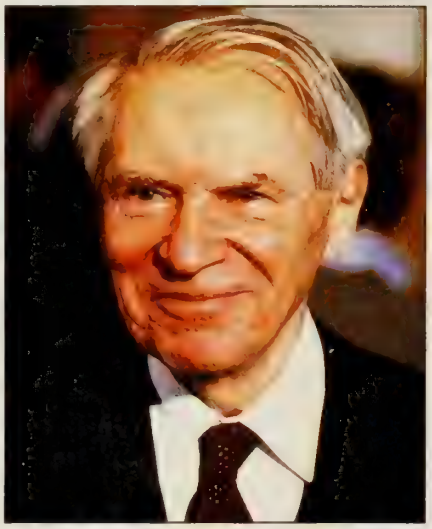
At 80, Werner Otto is a living reminder of Germany's postwar economic miracle. He came to Hamburg from what is today East Germany to start Otto Versand, now the world's largest mail-order house ($7.8 billion sales). Unlike the Schickedanzes, the Ottos aren't overly excited about those new Eastern European markets yet.

They want sophisticated markets, with working telephones and postal systems. Plenty of credit cards. Reliable deliveries. And lots of affluent, busy people with no time to shop who will pay for mail-order convenience.

So Otto Versand, now run by son Michael, 47, is concentrating on Western Europe, the U.S. and Japan.

It is even taking a flier in Great Britain, the last major European market without an Otto presence. It has a joint venture with a British card com-

Rehder/DPA



Werner Otto

pany to market affordable women's clothes via catalog.

In the U.S., the Otto family owns 87% of Spiegel, which owns Honeybee and Eddie Bauer. The Japanese subsidiary, Otto Sumisho, founded in 1986, is still losing money.

Between the company and substantial real estate in North America, the Ottos are worth well over $2 billion. Having been poor in postwar Germany, can they be blamed for liking rich markets better than "developing" ones?—**Philip Glouchevitch**

PRINCE JOHANNES VON THURN UND TAXIS

Not nouveau riche

Last January von Thurn und Taxis celebrated the 500th anniversary of the founding of the postal monopoly his clan controlled until 1867, when Prussia took it in exchange for large tracts of land. Much of that land was seized without compensation by communist regimes in East Germany, Poland and Czechoslovakia.

The prince is waiting for the political situations in those countries to clear up before pursuing any claim on the land. He remains West Germany's largest landowner, and has industrial

Helmut Newton/Sygma

Prince, Princess von Thurn und Taxis

and financial enterprises, mostly run by Helge Petersen, former adviser to the Quandts.

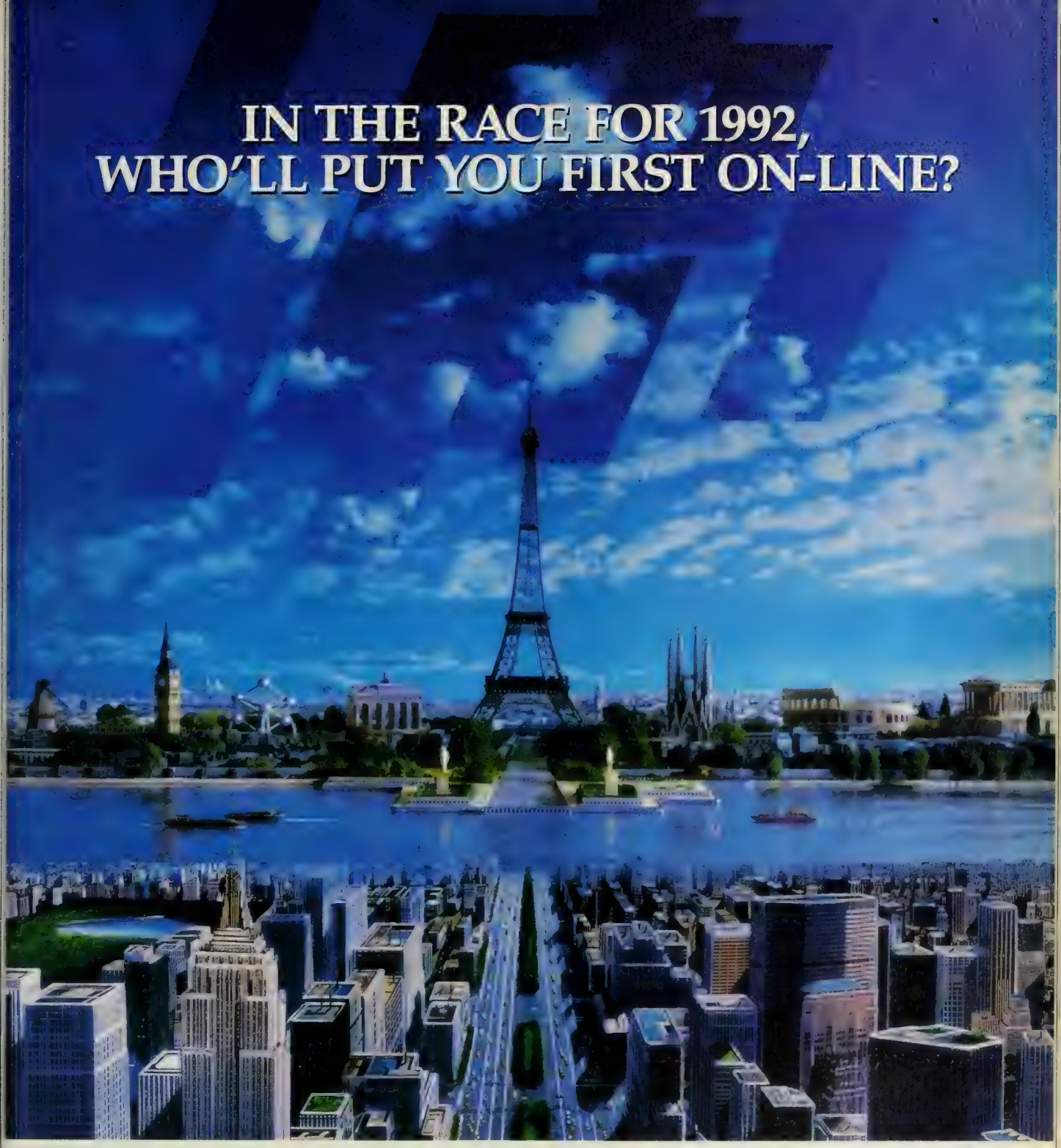
Petersen is further expanding the prince's financial services operation, which is geared toward wealthy investors like the prince. To the cornerstone Fürst Thurn und Taxis Bank (total assets just under $600 million), he's added Munich business consultants WMK Beteiligungsberatung GmbH, a new real estate leasing company, a Munich brokerage, a Düsseldorf-based real estate company and, in the U.S., 37% of Philadelphia securities house Butcher & Co. On the industrial side, there are the prince's two electrical equipment companies, a brewery and Bavarian lumber mills.—**Philip Glouchevitch**

HENKEL FAMILY

It pays to advertise

Henkel KGaA has already been investing in East Germany for decades—via the airwaves. Its well-known brand-name household detergents and cosmetics are all advertised on West German TV, watched avidly by many of East Germany's 17 million deprived consumers all these years. In a business where brand awareness is key, they are eager potential new customers.

Meanwhile, Henkel has dramatically increased foreign acquisitions and investments in the past three years.



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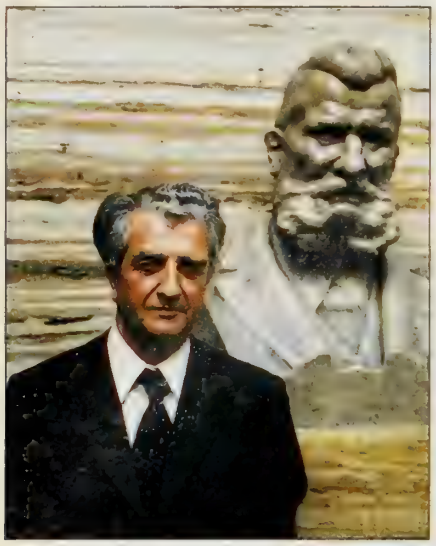

Konrad Henkel

Ossinger-DPA

The most recent is a 12% stake in St. Paul, Minn.-based Ecolab, which produces specialty chemicals. Henkel also has longstanding stakes in the U.S.' Loctite (26%) and Clorox (26%). All of their investments in the U.S., the U.K., France and Spain have come almost entirely from cash flow or new equity raised strictly through nonvoting shares. Little or no debt. The 300-plus-member family, headed by 74-year-old Konrad Henkel, is keeping a lock on the voting shares until at least the year 2000.

The Henkel family fortune began in 1876 with a household bleach. In 1907 Henkel introduced its famous Persil detergent. Later came more cleaning products, adhesives and cosmetics. Now comes the long-awaited return to East Germany.—**Philip Glouchevitch**

HAINDL FAMILY

Out to paper the East

If you read a morning paper in Germany, chances are it is printed on paper from Haindl Papier GmbH: The Bavarian family-run company has become one of the largest suppliers of newsprint in Europe (revenues, $1.3 billion). This is an old-line outfit: founded in 1849, based in Augsburg, and still run by members of the original clan, whose worth is just over $1 billion. They once just supplied raw wood but have long since been vertically integrated. Today they're working environmentalism into their operations: They are the largest recyclers of paper in Europe, processing 400,000 tons of old paper a year. They turned the company-owned airplane into a small regional airline running daily between Augsburg, Hamburg and Düsseldorf.

They are also active outside West Germany: On the West Coast of the U.S. they own sister paper company Port Townsend Corp. There are factories in Holland and Austria and a paper wholesaler in New York. And now, through a joint venture, Haindl newsprint—a necessity to freedom of the press—will soon be available in East Germany.

ALBRECHT FAMILY

Bare-bones approach

"Poor people have to buy cheaply, rich people like to." It's an adage that's worked well for the Albrechts, Karl, 70, and Theo, 68, the discount supermarket magnates. Not just in Germany, but in the U.S. Since 1976 their Aldi chain has grown to over 225 stores. The brothers aren't forthcoming, but some estimates put Aldi's U.S. sales at $500 million per annum.

Aldi stores don't have fresh produce or meat, just five or so aisles of boxes containing some 500 basic products, mostly low-priced canned and dry goods. The stores, all built by the same construction company off a standard blueprint, thrive mostly in smaller cities and towns from Kansas to Ohio.

The brothers first shaped their methods in postwar Germany. They now have stores in Austria, Belgium, Holland and England. As for Eastern Europe, "the Aldi concept is the most logical," according to Barrington, Ill. supermarket consultant Willard Bishop Jr. And Theo has 11% of Idaho-based Albertson's, worth some $500 million.—**Philip Glouchevitch**

ERIVAN HAUB

Opportunity lies abroad

Margins are reportedly getting thin for Tengelmann Group, Germany's biggest supermarket group (1989 revenues, $22 billion). It was rebuffed by the cartel commission last fall in its effort to acquire Gottlieb, another German chain. So owner Erivan Haub, 57, looks abroad for growth.

A bid by 52%-owned A&P for Britain's Gateway Plc. failed. But A&P wound up with 20% of rival bidder Isosceles, a consortium that includes Gateway executives and London's S.G. Warburg bank. Tengelmann itself won the bidding (against the likes of Silvio Berlusconi) for a minority interest in the Italian family-owned Superal SRL supermarket chain in Tuscany. Superal has 28 stores with almost $400 million in sales and is looking to expand.

In the East, Tengelmann bought 21% of Hungary's Skala Coop, which sells everything from clothes to flatirons to food in some 500 stores.

Tengelmann's other foreign holdings are the Lowa chain in Austria and Herman's in Holland. Rounding out the German investments are the Kaisers Kaffee and Obi chains. All told, the Haub supermarket empire, a family business that was founded in 1876, is today worth over $5 billion, worldwide.—**Philip Glouchevitch**

Wolf Prange

Erivan Haub

ROCHLING FAMILY

After steel, what?

In Germany, the Röchling name means German steel. Ever since Carl Röchling inherited an ailing ironworks in Volklingen, in 1881, the onetime coal merchant family has been on the ascent. Carl's son Herman was the Kaiser's arms adviser, and was later commissioned by Hitler to arrange war financing. After World War II the family bought Rheinmetall A.G., which had manufactured steel used in tanks for the Third Reich armies. Herman also fought for the restitution from France of the industrial Saar region, until he died in 1955.

Today the diversified manufacturing group—still heavily in steel—is owned by a 150-member family. The family still has about two-thirds of the voting shares of now-public Rheinmetall; other steel assets were sold and the proceeds invested by nonfamily professional managers in

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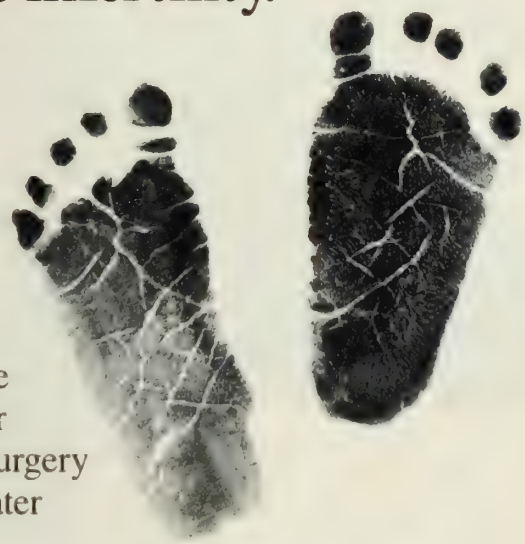
Jamie Conlon's first step proves NEC's laser technology can help solve infertility.



Jamie Elizabeth Conlon is living proof of the great strides medicine is making towards reducing America's rising infertility rate.

Twelve years before Jamie's birth, Claire Conlon experienced a series of medical difficulties that convinced her she would never bear children. But in October of 1987 she was told that Contact Laser™ surgery might correct her problem. Two months later she was pregnant.

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growth businesses. In 1988 they took over Bergmann-Electrizitäts-Werke A.G., a holding company, and are now merging it with their telephone-switching manufacturer DeTeWe. With steel long since a slow-growth industry, the Röchling family is betting on high-tech plastics and electronics for the early 21st century, the way it bet on steel for the early 20th.

QUANDT FAMILY

Would you sell BMW?

After seven straight record years, BMW should certainly fetch a high price. Rumors abound. But Johanna Quandt, 63, shows no signs of selling her family's majority stake—around 60%. She still personally holds at least 20% of the family jewel.

The jewel itself has been acquiring

Wolf Prange

Herbert Quandt

small, car-related companies. The plan is to stick to its top-of-the-line cars, which in future will contain ever more sophisticated electronics. So BMW has invested in a dozen small companies through U.S. and German venture capital firms and has acquired Munich's Kontron Elektronik GmbH ($175 million sales) from Switzerland's Roche to automate production.

Johanna is the third wife and now widow of Herbert Quandt, who bought into and bailed out near-bankrupt BMW in 1960. Herbert's half-brother, Harald Quandt, died in a 1967 plane crash. The family includes Harald's widow, Inge, and five daughters. Herbert had a daughter from a first marriage, three children from a second marriage, and, with Johanna, Suzanne, 27, and Stephan, 24. The combined Quandt fortunes total at least $5 billion.—**Philip Glouchevitch**

OTTO BEISHEIM

Keeping one step ahead

If you can get enough of a head start, it may not matter if your competitors eventually catch you. Consider Otto Beisheim, who built up his "wholesale" empire of Metro stores from 1964 and sold heavily to retail customers. As a "wholesaler," Metro ignored Germany's silly store-closing law for retailers. Beisheim made a vast fortune by, among other things, staying open until 9:00 p.m. while retail competitors closed at 6:30. He simply handed out the required special wholesaler's entrance pass to anyone who asked. Finally, last November, the German Retail Trade Association got the courts to order Metro to close at the same time or else keep a closer eye on the door.

Is Otto on the ropes? Of course not. He prepared long ago for this inevitable day by diversifying widely throughout Europe and the U.S. In Germany, Metro controls 50% of Kaufhof (the number two conventional retailer behind Karstadt), Huma/Suma and Primus Meister supermarkets, and, in Switzerland, 60% of the Pelikan office supply company. There are travel services, insurance and even a new money market fund. In the U.S. he has the Jetro cash-and-carry stores.

Beisheim, 66, keeps homes in Lugano, Switzerland, Bal Harbor, Fla. and Rottach-Eggern in Germany, and oversees Metro through holding companies in Switzerland, Liechtenstein and the U.S.—**Philip Glouchevitch**

WILLI LEIBBRAND

Not gone yet

Competitors have been hoping the man sometimes called Germany's king of retailing would retire. Far from it. In 1989 Willi Leibbrand sold his remaining 50% in his 3,000 discount outlets Rewe-Leibbrand OHG. But he used the money to buy 25% of Rewe-Zentrale A.G., and is staying on the board with this key holding.

His climb to Germany's second-largest supermarket chain—past Aldi, Karstadt and Tengelmann, if still behind Metro—began in the early 1960s. He inherited a wholesale company that delivered to mom-and-pop stores. He then opened "reasonably priced neighborhood stores for everyday use." The stores became a chain, with the rallying cry, "A new store every other day." He swallowed other discounters, then added chains of stores selling electronics, jewelry and carpets. In recent years the Leibbrand businesses reached the $15 billion sales mark, but margins have been shrinking—with everyone else's.

Even though he's sold out his majority share in the company, the competitors have little hope of being rid of him soon: By contract he must retire from the Rewe board by age 70. But that's not until the year 2003.

WILHELM AND AUGUST VON FINCK

Tax planning

Under recent West German tax reform, the top income tax rate dropped to 53% from 56%; the top corporate rate fell from 56% to 50%. The bad news is that since January certain capital gains on large holdings have been taxed at the 53% maxi-

Wolf Prange

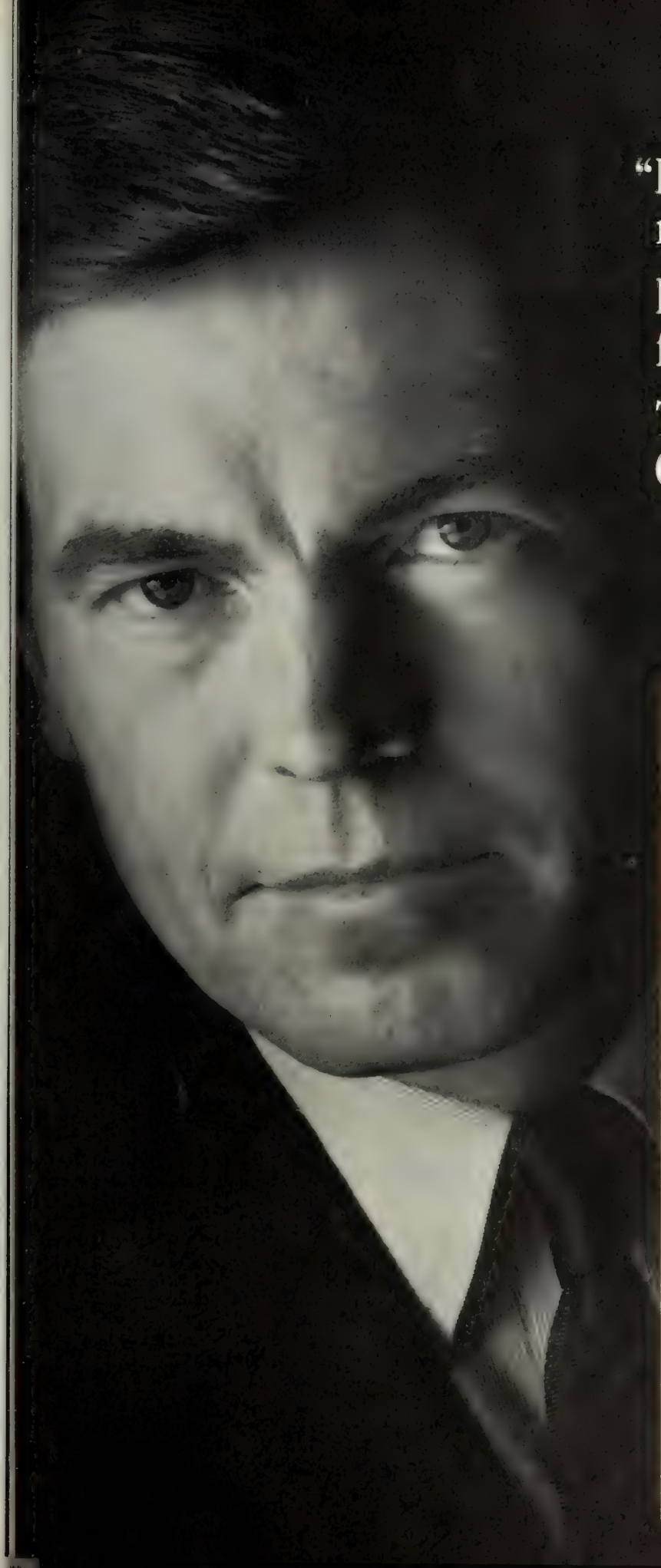
August von Finck

Wilhelm von Finck

Wolf Prange

mum rate instead of at a preferential 28% rate.

For Wilhelm, 62, and August von Finck, 60, whose private bank, Merck, Finck & Co., holds industrial and property assets dating back to the last century, the new capital gains schedule is worth hundreds of millions of dollars. To mitigate the impact on their estates, the brothers exchanged properties among their various subsidiaries last year. The only other way to write up the securities would have been to transform Merck, Finck & Co.—West Germany's second-largest private bank—into a public stock company. But the von Fincks want to be private bankers, the better to keep their very substantial wealth from public view.



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—Richard Secrist
Executive and Entrepreneur

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The brothers' $3 billion-plus visible investment portfolio faces more obstacles before it goes to their heirs (Wilhelm has one child and August has four). There will still be a 35% inheritance tax eventually. On a happier note, the 10,000 acres of mostly undeveloped von Finck land around Munich will be taxed at only 10% of market value.—**Philip Glouchevitch**

HEINZ BAUER

Now, cross-border ad breaks

You really know the world's going global when a publisher gives discounts to advertisers across national borders. Bauer Verlag, Heinz Bauer's once strictly German house, now gives advertisers a 15% discount for ads put in all four of Bauer's women's fashion magazines. Only two *(Tina* and *Bella)* are German, while *Maxi* is French and another *Bella* is English. The break applies even if the ad is varied to suit the different national psyches.

In the U.S., where Bauer publishes *Woman's World* and *First for Women*, Bauer is introducing the common English practice of giving agencies volume discounts—to draw smaller advertisers, whose ads get cheaper when pooled with other ads through the same agency.

Bauer, 50, is a longtime border crosser. Aside from his 40-magazine publishing empire, his diversifications include Optyl, which supplies the world with the fancy designer sunglasses created by Porsche Carrera and Christian Dior, and Winn's, a 230-store discount chain in Texas.

But the key asset remains *Hören und Sehen*, Germany's version of *TV Guide*. It and his two other program guides account for one-third of the publishing revenues. The family company was founded in 1875 by Heinz' grandfather.—**Philip Glouchevitch**

MOHN FAMILY

Make profits, not empires

Reinhard Mohn, 70, no longer runs family-owned media giant Bertelsmann A.G. day to day. But his ideas do: Mohn seeks to reconcile the often divergent objectives of owners and their managers, who he says like to empire-build, even at the expense of profits. So certain Bertelsmann managers will soon be able to invest their own money, within limits, in their divisions—for returns determined by profits.

While chairman and patriarch Mohn focuses on such strategies, Chief Executive Markus Wössner sticks to the core businesses—book and record clubs and 70%-owned Grüner & Jahr, a magazine publisher in Europe; Doubleday publishing and RCA Records in the U.S. There are small projects in the works: a German cable channel and a laser videodisc venture. East Germany? A book club previously test-marketed in Dresden begins this year.

Tschauner/DPA

Reinhard Mohn

At $6.7 billion revenues and $206 million 1989 profits, things have come a long way since 1835, when Carl Bertelsmann first published religious books. Reinhard, the fifth generation, has passed to son Johannes a majority of the shares, plus stock to his wife and five other children. He has kept a single DM 500 share that has all the votes, which will eventually go to the nonprofit Bertelsmann Foundation.—**Philip Glouchevitch**

BOSCH FAMILY

World's richest eight-percenters

Privately owned Robert Bosch GmbH is Germany's ninth-largest industrial company, known worldwide for spark plugs, ABS brakes, and other auto components. In 1989 worldwide sales were $18 billion.

Robert Bosch (1861-1942) was the son of a farmer from the Stuttgart region. At age 25, he founded his own manufacturing company and infused it with a quality-first philosophy. His motto: "Better to lose money than trust." His contemporaries taunted him in 1906 for introducing the eight-hour workday in his factories. He donated his company's earnings from World War I, some 10 million marks, to the Weimar Republic. Bosch also built housing projects and hospitals in Stuttgart.

His son Robert Jr., now 62, succeeded his father as manager of the company, and ran it until 1971, when he left (he was 43) and began studying psychology. He founded workshops for handicapped people, psychotherapeutic youth clinics and geriatric centers. He and his family put the bulk of their ownership of the giant company into the Robert Bosch Stiftung GmbH charitable foundation in 1964, keeping only 12%. They have since reduced their share to 8%. But their namesake company's cash flow is so huge (over $1.6 billion in 1989 and growing), even their 8% remnant is worth over $1 billion.

HERZ FAMILY

Changing times

Things are different these days at the famed Tchibo Frisch Rost Kaffee retailing chain. Last year for the first time the bulk of the company's sales ($3.1 billion) came not from the Herz family's coffee-and-sundries business but from consolidating the controlling 60% stake in tobacco company Reemtsma Cigarettenfabrik GmbH. The company also has a 26% stake in Beiersdorf A.G., which makes Nivea skin care products. Coffee store profits fell to $39 million from 1988's $41 million, as raw material prices rose and competition became cutthroat.

Against this backdrop came a family drama of sorts. Michael Herz, 46, who had helped run the coffee chain that's the origin of the family fortune, resigned last November. With younger brother Wolfgang, 39 (who also left), he has acquired Blume 2000, a Hamburg flower distributor with 40 outlets. That leaves eldest brother Gunter, 49, and longtime associate Horst Pastuszek, 63, running Tchibo. All three brothers, two other siblings and their widowed mother remain shareholders.

Meanwhile, the last brewery holding, 90% of profitable Bavaria St. Pauli, was sold for a reported $235 million. The cash seems headed to cigarettes: Management sees growth potential when trade barriers fall in 1992.—**Philip Glouchevitch**

ERICH BROST AND FAMILY

World's most capitalistic socialist

Prior to World War II, Erich Brost was editor of the Socialist Party newspaper, *Danziger Stimme* (Voice of Danzig). After the war he got together with archconservative Jakob

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Erich Brost Dirk Hoppe/Netzhaut

Funke *(see below)* and founded what grew into today's Westdeutsche Allgemeine Zeitung press empire. The Essen-based media power has a near monopoly on newspapers in the industrialized Ruhr region; its dailies boast total circulation of 1.2 million. WAZ also has stakes in an Austrian newspaper and a broadcast property. Total revenues, around $600 million.

Now 86, Erich Brost still comes to the office every day, accompanied by his wife and former secretary Anneliese, 69. Exactly half the company belongs to him and his family. The other 50% is held by Funke's heirs. One of the company's two chief executives is Erich Schumann, 59, a former attorney for Germany's Socialist Party leadership who was legally adopted by Brost in 1985 and set up as the next heir, after wife Anneliese, to the Brost fortune. (Schumann shares the top job with Günther Grotkamp, the right-hand man of the Funke heirs.)

Brost also has a natural son, Martin, 43; his stock in WAZ was repurchased by his father after the 1987 stock market crash for $235 million and a 12.5% stake in the billionaire Otto family's Otto Versand. Megarich Martin lives the yuppie dream as an organic farmer and physical therapist in the hinterlands of Bavaria.

FUNKE FAMILY

Marriage is thicker than water

When Erich Brost's longtime partner, Jakob Funke, died in 1975, things got complicated in the family. Funke's 50% stake in the Westdeutsche Allgemeine Zeitung media empire was inherited by his four daughters and is comanaged by Günther Grotkamp. A 63-year-old former attorney, Grotkamp worked for Funke from 1960 and became his right-hand man. In 1986 he married Petra, now 47, the youngest daughter of Jakob.

Before the marriage, Grotkamp paid the sisters (Gisela Holthoff, 62; Renate Schubris, 52; Ute Funke, 48; and Petra) a $600,000 yearly stipend. The rest of the copious profits were reinvested in the company. Tired of the small payouts, Ute decided to sell her stock in 1989 and was given $160 million from Grotkamp—although her WAZ share may have been worth twice as much. Grotkamp did better by wife Petra: She got the family's 12.5% stake in Hamburg-based Otto Versand, which was worth at least $150 million, in addition to keeping her ownership stake in the family media company.

Not that the other girls are hurting. The eldest, Gisela, for instance, has enough capital to invest in luxury hotels in Köln and the French town of Annecy, in the French Alps.

JOSEF SCHORGHUBER

Munich's master builder

An "extraordinary sense for business," said Ludwig Huber, Bavaria's ex-finance minister, about Josef Schörghuber, the Munich-based construction and brewery entrepreneur. Indeed. The overweight Bavarian has little time for pinstripes and book-learned management methods: In his shirtsleeves he's put together a billion-dollar business. The core is real estate and a construction business built in the 1950s and 1960s: Since 1954 he's built 15,000 apartments, millions of square feet of office space, and much else.

Duren/DPA

Josef Schörghuber

With hefty support from the banks and Bavaria's ruling conservative party, Schörghuber built a massive housing and office complex called Arabellapark in the eastern section of Munich, where there had once been open fields. There's also Bau-Holding, an umbrella under which the traditional Hacker-Pschorr and Paulaner breweries operate. Schörghuber also owns other important stretches of Munich real estate and is Europe's largest Coca-Cola bottler, as well as the owner of the Arabella hotel chain and an airline leasing company.

For years he's been saying he wants to retire to his farm in the town of Bad Tolz. Last April he turned 70—but he still hasn't retired. So son Stefan will have to wait a while before he can claim his father's seat.

KARL HEINZ KIPP

Five-star investor

When Karl Heinz Kipp switched from German shopkeeper to Swiss hotelier it surely improved room service at the Tschuggen Hotel in Arosa, Switzerland. He moved in four years ago after selling his Massa stores for an aftertax gain of some $700 million and leaving his native Germany. From the top floor of the five-star hotel Kipp keeps an eye on his three other first-class Swiss resort hotels.

Kipp, 66, can well afford his *Guide Michelin* housing. Besides that upfront cash from Germany's Asko chain, Kipp gets $65 million a year for 30 years from the real estate under the stores, which he kept. Kipp also owns some Manhattan properties, looked after by his son Ernst Ludwig, who lives in Annapolis, Md.

He bought the Alfred Massa company in 1948 and built it into a successful textile wholesaler. Foreseeing correctly in 1964 the threat of cheap Asian textiles, he switched to retailing and built the 27 stores selling everything from food to sundries to garden supplies that he finally sold to Asko. Now Otto Beisheim's *(which see)* Metro Group reportedly has talked to Asko about buying them. That would give Massa a new Swiss connection: Beisheim has a house in Lugano.—**Philip Glouchevitch**

OETKER FAMILY

Moving on

Frozen pizza, sparkling wine, breweries, hotels, shipping, banking and insurance may not have synergy, but Rudolf Oetker, 74, and family draw a pretty profit from them anyway. Oetker quit active management nine years ago, but only last year did he transfer partial ownership of the main Oetker food and shipping company to his eight children from three marriages. Eldest son August Oetker, 46, manages the company and has voting control.

Wolf Prange

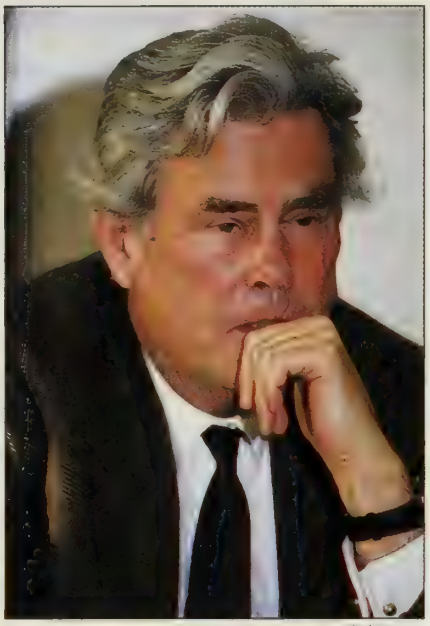
Rudolf Oetker

The transfer (other assets have long since been handed down) brings the "family store," as Rudolf likes to call his company, safely to the fourth generation. The business got its start in 1891 when Rudolf's grandfather began packaging baking powder in retail quantities, with free recipes included. German sales have always been strongest—some $600 million last year, versus only $225 million abroad. So Oetker seeks to expand. A 1989 joint venture with Turkey's Piyale to market Oetker products in Turkey marks a start. Then there's always East Germany.—**Philip Glouchevitch**

VON OPPENHEIM FAMILY

Globalization strikes again

The von Oppenheims would just as soon stick to home turf. "Our strength has always been in the Rhineland," a spokesman says. But 1992 approaches, and the owners of Germany's largest private bank (assets: $7.5 billion) must move on.



Wolf Prange

Manfred von Oppenheim

Last September cousins Manfred, 66, and Alfred, 56, sold a majority of the bank's 53% of the Colonia insurance company to Victoire group, a French holding company, for an undisclosed sum. Among other things, this will give Sal. Oppenheim jr. & Cie. more visible equity and more added clout as a unified Europe looms. Aside from the cousins' desire to concentrate more on banking, the elimination of preferential tax treatment for capital gains after Jan. 1 made the recent sale irresistible.

But they must also now have offices in New York, London and Tokyo, like anyone in big-time European banking. And last August they acquired Paris brokerage Jean-Claude Melendes, to add to their presence in the other continental markets of Holland, Luxembourg and Switzerland. So necessity has made the cousins internationalists.—**Philip Glouchevitch**

Alfred von Oppenheim

HUGO MANN

To sell or not to sell

Mann, 77, started out as a carpenter's apprentice and became one of Germany's biggest merchants. By 1988 his Wertkauf/Mann group had sales of $1.8 billion, enough to make him the country's 14th-largest retailer. His main companies today are the self-service Wertkauf supermarkets and the Mann furniture houses.

Mann breaks up his empire into three regional companies, plus a real estate holding company and a separate chain of furniture stores. Each of the pieces is small enough to escape the German financial reporting requirements for large private firms. But in 1988 the billionaire Otto family's Otto Versand toyed with buying Mann out. Their professional appraiser reportedly valued Mann's stores at about $1 billion—not counting the real estate held separately.

But no deal materialized, and Mann says he has no plans to sell off his company. "What would I do with the money?" he is reported to have said. "I would have to hire five or six people to manage it." Horrors!

VON SIEMENS FAMILY

Family protection plan

Siemens A.G., with annual sales of $35 billion, is the second-largest industrial company in Germany. It makes everything electrical from streetcars in Sacramento to nuclear power plants in Europe and South America to computers in Germany.

Thanks to its enormous cash flow, Siemens has a huge cash hoard, which it has used aggressively in recent years: a reported $3.5 billion on its share of the joint hostile takeover—with GEC of Britain—of the U.K.'s Plessey Industries; about $1.2 billion to buy Rolm from IBM; and some $600 million to take over 51% of Germany's Nixdorf Computer. Even after all that, it has $13 billion left.

That's 60% of its market value, and any armchair takeover artist knows he could easily borrow against cash flow to cover a bid. The stock has run up some 30% in the past year.

But there'll be no takeover here, thanks to the heirs of Werner von

Peter von Siemens Maechler DPA

Siemens, who cofounded Siemens & Halske Telegraph Co. in 1847. The company has been run by nonfamily managers for 20 years. But 200 family members do own 12% of the share capital through a trust, and many of the shares have up to six times the votes of ordinary shares—enough, reportedly, to give 25% control. Under German law that effectively blocks takeovers.—**Philip Glouchevitch**

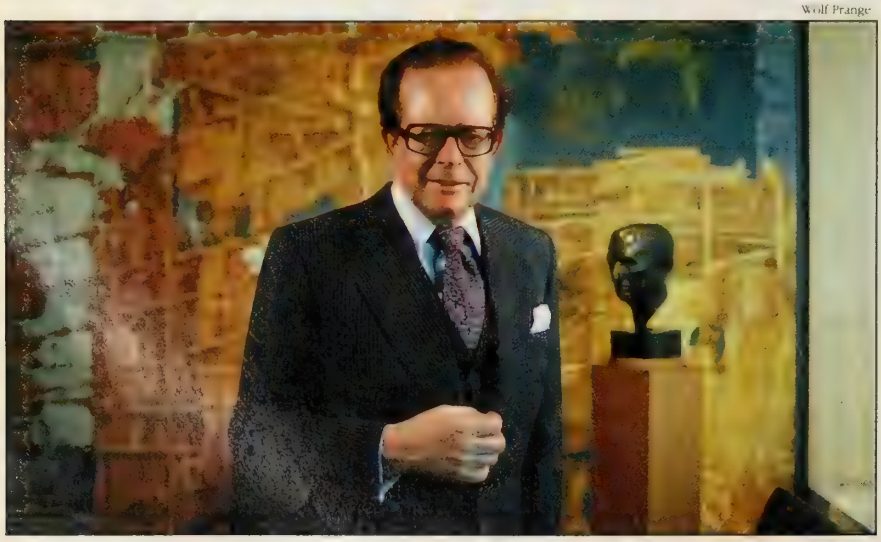
FRIEDRICH KARL FLICK

Where is Flick?

Friedrich Karl Flick, 63, continues to be notable by his absence. Five years ago he sold his industrial empire to Deutsche Bank for $3 billion. Since then Flick's only visible role has been to fulfill his duty on the supervisory board of Deutsche Bank. The feud with his two nephews, Friedrich Christian and Gert Rudolf, whose interests in the family company he bought out for a mere $120 million back in 1975, has calmed since Flick paid them an additional undisclosed amount last year. Fallout from the 1981 Flick affair, involving political contributions, has also subsided.

But anonymity doesn't come easily with the Flick name. Flick's father, also named Friedrich, profited before World War II from coal, steel and armament stocks, and was close to Hitler and high-ranking Nazis. He was sentenced to seven years in jail after the war. The family retained interests in steel, and invested in paper, chemicals and cars, at one time amassing 48% of Daimler-Benz.

So, is Karl Flick—K.F. to his friends—retired? Unconfirmed sightings of him in New York suggest he isn't, but just proceeding very quietly.—**Philip Glouchevitch**



Wolf Prange

Friedrich Karl Flick

BOEHRINGER FAMILY

Tradition pays

The Boehringer family, led by Hubertus Liebrecht, the founder's grandson, owns Germany's third-largest pharmaceutical company, Boehringer Ingelheim, with 1988 sales of $2.4 billion and cash flow of $250 million. Cash flow multiples common to German pharmaceutical firms would give it a value of $2.6 billion. The company is best known in the U.S. for cooperating with Genentech to market the heart drug Activase, but it's active in over 100 other countries, selling such items as Persantin, used to treat atherosclerosis, as well as chemicals and basic food products.

Albert Boehringer founded the company when he bought a small tartaric acid factory in Lower Ingelheim—not far from Frankfurt—in 1885, and began selling its production to pharmacies and dye factories. He ran the business so well that during the German hyperinflation of the early 1920s its scrip was accepted as money. Boehringer Ingelheim doesn't have to guarantee money anymore, but it's still highly regarded two-thirds of a century later—another example of the strength of Germany's tradition of family-owned companies.

Hubertus Liebrecht Tomas Schmidt

WERHAHN FAMILY

Fortune builders

The Werhahns of Neuss, on the Rhine, reclusive as ever, continue to shroud banking, building materials and wholesaling interests from view. It appears that the family is beefing up financial services. The family bank, Bankhaus Wilhelm Werhahn K.G., previously the umbrella for industrial holdings, is now part of a separate financial services division, along with the recently purchased Hamburg-based auto financing company Auto Kredit Bank A.G. (assets, $600 million). The family will say only that the results for the financial services and other industrial interests "may be up from last year."

The nominal head of the family, Heribert Werhahn, recently reassumed the chairmanship of the supervisory board of Strabag Bau A.G. The Werhahns own some 50% of this publicly traded construction outfit, Germany's fourth largest. Strabag is in fine shape, and may even resume paying out a dividend after a five-year drought.

Many observers consider Eastern Europe a prime market for construction companies like Strabag. The

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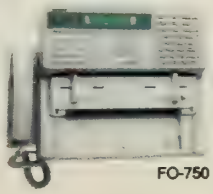

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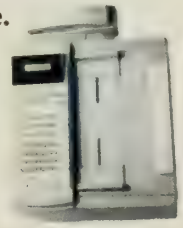

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Heribert Werhahn — Wolf Prange

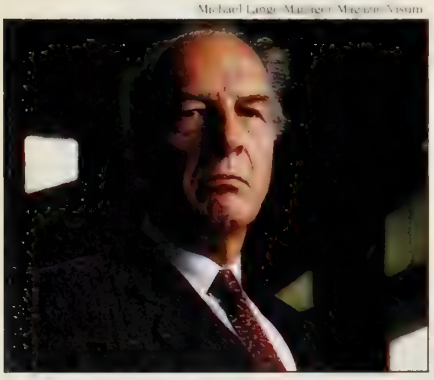
stock recently traded at over DM 550, compared with just over DM 200 last year, putting the value of the family's holding in this piece alone at over $450 million.—**Philip Glouchevitch**

MERCK FAMILY

The quality of Merckness

The Merck family from Darmstadt in central Germany traces its company history back to the Mercksche Engel Apotheke, a pharmacy founded in 1668. Since 1827 it has produced chemical and pharmaceutical products in industrial quantities, today generating revenues of $1 billion a year making a variety of pharmaceutical and medical prod-

Michael Lange-Manager Magazin-Visum



Hans Joachim Langmann

ucts. The company was the precursor of today's Rahway, N.J.-based Merck & Co., which was split off from its parent—as were many German subsidiaries—at the time of the First World War.

The capital of Germany's Merck is still in the hands of the family—more than 80 members of which are shareholders today. By now they have names like Baillou and Berglar, Groos and Kessel, but they're all Mercks to the core. For over 25 years Hans Joachim Langmann, 66, has been the undisputed head of the clan—a physicist who married into the family in the 1950s. Today he reportedly presides over the company like a feudal lord. For him the corporation is the "place where modern man realizes himself."

But there can be such a thing as too much Merckness. Langmann likes to get away to the Black Forest or the island of Sylt in the North Sea to renew his perspective on the family's $2-billion-plus fortune.

HANIEL FAMILY

Thank King Frederick

With its sooty chimneys and rusty cranes, Duisburg is not Germany's prettiest city. But this Ruhr town is home to the sparkling Franz Haniel & Cie GmbH, a worldwide trading company owned by the 288-member Haniel family, now in its fifth generation of company ownership. All of them are shareholders.

But the company's success is largely the result of the policy of installing professional management. Self-assured Chief Executive Hans Georg ("no one blows us over") Willers oversees 23,000 workers in 151 Haniel companies busily shipping to and from Africa, trading pharmaceuticals and heating oil and disposing of industrial waste, among other things. Perhaps most important of all, the company is also a major—33%—shareholder in heavyweight European discounter and retailer Metro *(see Beisheim, Schmidt-Ruthenbeck)*, a stake alone worth some $2 billion. The company headquarters sits precisely on the spot overlooking the harbor where in 1756 Frederick the Great of Prussia allowed shipper Jan Willem Noot to build a warehouse, and started the whole thing going.

SCHMIDT-RUTHENBECK FAMILY

Low profile

The brothers Michael and Rainer Schmidt-Ruthenbeck from Duisburg are among the least-known rich. They seldom appear in the public eye. Yet together they own a third of the Düsseldorf-based Metro Group, Europe's very private and little understood wholesale and discount-retail behemoth. For Metro's 25th anniversary last year, company founder Otto Beisheim *(which see)* and the brothers offered a look inside the company: They admitted that worldwide sales reached $20 billion and that Metro employed almost 90,000 people, about 16,000 in West Germany. The group owns a majority of Köln-based department store chain Kaufhof A.G., four shopping centers, 25 building and hardware stores, 24 furniture outlets and 6 sporting goods stores—and is behind such well-known European retailing names as Huma, Primus, BLV, Meister, Wines Point and BOT. Color the secretive brothers' fortune $2.2 billion.

FREUDENBERG FAMILY

Diversified producer

Reinhart Freudenberg, 58, heads Weinheim-based Freudenberg GmbH (sales, $2.5 billion), a diversified producer and supplier for the automotive manufacturing and textile industries. The company had started out as a tannery, but over 50 years ago began diversifying into nonwoven fabrics, oil seals and vibration dampers. Reinhart took over the top spot in 1961 on behalf of some 250 family members. The company, now active in 26 countries, has been consistently reinvesting about 7% of its sales in research and development.

Freudenberg is a descendant of the company's founder, Carl Freudenberg, who had started the business in 1844. Reinhart's uncle, Richard, who at one time headed the company and after World War II served as an independent delegate to the Bundestag (the lower house in the German parliament), typified German modesty. When checking into hotels in Bonn to attend parliamentary sessions, he would list his occupation simply as "tanner," nothing more.

Wolfgang von Brauchitsch

Reinhart Freudenberg

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ABDUL LATIF JAMEEL

"We always attack"

Jameel did better than striking oil or gold. In 1955 he won exclusive rights to distribute Toyota vehicles in Saudi Arabia. Abdul Latif Jameel Co. Ltd. built Toyota sales to a peak of 152,000 during the oil boom, almost a third of the Saudi passenger and light-truck market. Thanks to auto distribution, A.L.J. is one of the largest private Saudi businesses by sales, with revenues of $1.3 billion. The 1980s oil slump cut sales sharply, but by then Jameel had channeled profits into his Jaymont Properties, an impressive list of prime realty in New York, Boston, San Francisco, Miami and Orlando. Among Jaymont's holdings: the 49-story "Wang Building" at 780 Third Avenue in New York.

But Toyota distribution remains the heart of his empire. Jameel has developed this market by creating the largest central parts warehouse in the Middle East, through easy financing, and with some of the most sophisticated advertising in Saudi Arabia—it once featured former boxing champ Muhammad Ali, a regional favorite. Having become expert in auto dealerships, A.L.J. made a successful hostile bid on Hartwell Plc., a British distributor with Ford, Rover, Jaguar, BMW and Mercedes franchises.

Jameel, now in his mid-70s, has taken Mohammed, one of his three U.S.-educated sons, into the business. Son Mohammed is no pussycat. He recently told London's *Sunday Telegraph:* "If you have market share, profit will always follow. We always attack, we don't defend. So our competitors are always under attack. We never let go. If you do, it gives them a chance to gather momentum."—**Zina Sawaya**

Abdul Latif Jameel

BIN MAHFOUZ FAMILY

No recourse

The Bin Mahfouzes are traditional bankers to the House of Saud, which has posed a problem. The oil bust hit some of the king's lesser relations hard, and the Bin Mahfouzes' National Commercial Bank was obliged to eat bad royal paper. Recourse? None.

On a happier note, the family was able to sell, for $528 million, its 20% share of Bank of Credit & Commerce International, the bank indicted on drug money laundering charges in the U.S. in 1988. Without the BCCI headache, the Bin Mahfouzes are now ready to capitalize on recovery in the Gulf, or invest more abroad. The family's major global vehicle is Luxembourg-based Middle East Financial Group, which among other things, has major U.S. real estate holdings.

Salim Ahmed Bin Mahfouz

The family's 60%-plus of National Commercial, Saudi Arabia's largest bank (gross assets, $23 billion), is worth over $500 million (the other 40% belongs to the also wealthy Kaaki family). Add to this huge Saudi landholdings, and the Bin Mahfouzes' worth exceeds $2.5 billion. Khalid Bin Salim Bin Mahfouz, 43, seems to be emerging, as his father, patriarch Salim Ahmed, steps onto the sidelines. Khalid's brothers, Mohammed and Abdul Elah, are also in management, but he looks at the deals, makes the moves and oversees foreign investments. Khalid Bin Mahfouz is described as a risk-taker, and has recovered from a serious car accident last year—as well as from royal deadbeats.—**Zina Sawaya**

SULIMAN SALEH OLAYAN

Like father, like daughter

Olayan likes the stock market, although he has reduced his stakes in Occidental Petroleum (to around 1%), First Chicago Corp. (to 3.5%) and Transamerica (to 3.3%), according to the latest available 13-D filings. He operates here under the names Crescent Diversified Ltd. and Competrol Establishment.

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Barry F. Sullivan, Chairman, First Chicago Corporation

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Suliman Saleh Olayan

In 1988 the Olayan Group acquired a 30.5% temporary stake in CS First Boston Inc. to facilitate the merger of First Boston with European affiliate Crédit Suisse First Boston. Through Crescent, Olayan has kept 5% of CS First Boston after selling the 30.5% to Metropolitan Life and others. The Met deal values his 5% at an estimated $100 million.

In Saudi Arabia, meanwhile, Olayan's long list of lucrative franchises includes Kimberly-Clark and Colgate-Palmolive. To these he more recently added the right to distribute Coca-Cola in Saudi Arabia—even though Coke is on the Arab boycott list for its Israeli operations.

Olayan, 71, is increasingly turning the business over to his four children. Unlike most Saudis, he does not discriminate against his female children. Two of his daughters have earned M.B.A.s at U.S. universities, and daughter Hutham is boss of New York-based Crescent.—**Zina Sawaya**

AL-RAJHI FAMILY

Non-interest-bearing accounts

The Al-Rajhi brothers (Sulaiman, Saleh, Abdullah and Mohamed) are the envy of Saudi bankers. Their Al-Rajhi Banking & Investment Corp. (assets, $4.5 billion) may be one of the most profitable banks in the world. Return on its substantial equity exceeded 48% last year. The former moneychanger went public in 1988 at $26.70 a share, and recently traded at $380, valuing the Al-Rajhis' 52% at nearly $1.6 billion. Add to that hundreds of millions made in the oil boom years.

The Al-Rajhis' bank now has the largest number of branches in the kingdom. Other banks close at 7 p.m.; Al-Rajhi stays open until 8. The brothers are fervently religious, but stay open late Thursday afternoon, when lazier competitors go home for the Muslim weekend. The bank operates according to strict Islamic rules that forbid paying interest. Instead of earning interest, depositors share in bank profits. For a business client, the bank will buy his needed inventory or asset and resell to him at a markup. Investment banking, in short, pays.—**Zina Sawaya**

ABDUL AZIZ A. AL-SULAIMAN

Good risk

Al-Sulaiman, 59, has surrounded himself with a clique of shrewd Syrian Christians who assist him in investment decisions. As a result, Al-Sulaiman has channeled most of the money earned during the oil boom years abroad. His main European company, Rolaco Holding (named after daughter Rola), owns 6% of Belgium's Compagnie Internationale des Wagons-Lits, one of the biggest leisure groups in Europe. It also owns hotels and a stake in German hotel management group Kempinski A.G. Shipping, banking and realty are also among Al-Sulaiman's holdings.

Abdul Aziz Al-Sulaiman

Al-Sulaiman's main domestic corporate presence is Rolaco, which, among other things, sells Nissan diesel trucks. His son Saud, 28, is general manager. Al-Sulaiman's family also controls Arabian Cement Co.

Al-Sulaiman is widely considered one of Saudi Arabia's largest private landowners; he reportedly owns a big chunk of downtown Riyadh, the capital. Perhaps the clearest indication of his wealth and power are reports that Al-Sulaiman is not required to give his personal guarantee to bankers, and so does not disclose assets. There is no indication that he has abused this privilege: His credit has proved good at a time when even some Saudi royals' loans have gone sour, as witness the case of the Bin Mahfouz family *(which see)*.—**Zina Sawaya**

JUFFALI FAMILY

Agents of choice

With Western companies finding it more important than ever to hook up with a local partner to do business in the Gulf, brothers Ebrahim, Ahmad and Ali Juffali should have their hands full. They run E.A. Juffali & Brothers, which has represented some of the world's biggest multinationals, including Mercedes-Benz. The family has long enjoyed royal favor in a kingdom where such favor counts for much more than just prestige. Legend has it that the Juffalis won royal favor when they installed imported cooling machinery at the House of Saud's summer resort, Taif, in 1950. The Juffalis still represent Fluor Corp. and York International; the latter recently won a contract to air-condition the sacred Prophet's Mosque in Medina.

The Juffalis also participate in joint ventures, teaming with Du Pont to produce permeators, a key element in water desalinating equipment—another big business in Saudi Arabia.

Robert Azzi/Woodfin Camp

Ahmad Juffali

Their extensive stock portfolio includes a position in Daimler-Benz. A family holding company, Enpro International, has substantial U.S. real estate.—**Zina Sawaya**

KUWAIT

MOHAMED ABDUL MOHSIN AL-KHARAFI

On the road to Morocco?

Mohamed Abdul Mohsin Al-Kharafi Industries & Establishments, one of Kuwait's largest construction companies, is considering Morocco. A May symposium in Morocco's seaside resort of Agadir introduced proposed free trade zones to a number of top executives and entrepreneurs from around the globe, including six billionaires or members of billionaire families. Among them was Mohamed

Mohamed Abdul Mohsin Al-Kharafi

Al-Kharafi. As chairman of the $13 billion (assets) National Bank of Kuwait, the oldest in Kuwait and the best managed in the Persian Gulf, it's a safe bet Al-Kharafi wasn't there to take the waters.

Was this symposium the start of something big in Morocco? FORBES wanted to know. A simple, quiet-spoken man, Al-Kharafi smiled, demurred. His investment philosophy: "I'm not in one pot, not in one place, not in one currency."

Last year Al-Kharafi's NBK reported official profits of $120 million, but a good chunk of its real profits is hidden away under liabilities or in secret reserves. "We learned that from the Swiss," quips an NBK banker.

Mohamed's son Jassim is a presence in his own right: Until recently he was finance minister and chairman of the government's Kuwait Investment Agency. Mohamed Al-Kharafi's presence at that Moroccan symposium was a highly positive sign for the North African kingdom.—**Zina Sawaya**

AL-GHANIM FAMILY

Americanesque

Sometimes called the Rockefellers of the Persian Gulf, the Al-Ghanims are more Western-oriented than most Gulf business people. Yusuf Ahmad Al-Ghanim & Sons was always quick to recruit outsiders, including American M.B.A.s, for top manage-

Yusuf Al-Ghanim

ment positions. But the family still prevails. Patriarch Yusuf Al-Ghanim, in his late 80s and long inactive, has one son running the business: Bassam, in his early 40s.

The family's diverse company includes travel agencies, contracting, insurance, electronics, shipping, car rentals, franchises for Chevrolets and Cadillacs—favorites in Kuwait—and even a license for Toys "R" Us, also hugely popular, in various Gulf countries. The Al-Ghanims' New York-based investment vehicle AI International Corp. invests in real estate, and its AI Automotive Corp. is one of the top ten parts distributors in the U.S. The latter venture is in some trouble: It apparently stretched itself thin buying all over the country instead of concentrating on one region.

Yusuf's son Kutayba spends most of his time in the U.S., working and living in New York.—**Zina Sawaya**

BAHRAIN

KANOO FAMILY

Peace-loving family

Few are happier with the end of the Iran-Iraq war than the Kanoo family, the leading shipping agents in the region; peace means more trade. The Kanoo Group supplies some 3,000 to 4,000 ships in the Gulf annually with essential services: docking, cargo handling, land transportation. With the guns silent, according to London-based *Containerisation International*, container tonnage in the Persian Gulf—excluding shipments to Iran and Iraq—was up an estimated 5%, to 22 million tons, last year.

Besides shipping, the Kanoo Group, led by 67-year-old Ahmed Ali, is in banking, insurance, agriculture, industrial equipment sales and travel agencies. Ahmed Ali is chairman of the National Bank of Bahrain (assets, $2 billion). He is also vice chairman of Investcorp, the Middle East's foremost merchant bank, which bought Tiffany & Co. in 1984 and recently agreed to buy Saks Fifth Avenue from Britain's B.A.T Industries (for whom the Kanoos are the local agents in Bahrain).

The Kanoo Group rose to prominence as a pearl trader. It celebrates its 100th anniversary this year by get-

Ahmed Ali Kanoo

ting into consumer products. It now represents Sears, Roebuck and has just received the first shipment of household appliances, hardware and gardening tools. It wants other such franchises—a clear signal that peace is bullish for the Gulf's consumption-minded middle class.—**Zina Sawaya**

TURKEY

VEHBI M. KOC

Slacks, refrigerators and lumber

They say in Turkey that there's the public sector, the private sector and the Koc sector. In fact, the Koc (pronounced like coach) Group (1989 consolidated sales, $6.4 billion) has its products in practically every household in Turkey. Under Koc Group are 103 companies in electron-

Gilles Mermet/Sipa

Vehbi Koc

ics, construction, food, insurance, tourism, textiles, household appliances, automotives and exporting. A net worth believed at over $2 billion has allowed the Koc family to live like pashas in a sumptuous mansion overlooking the Bosporus, complete with ancient Roman columns.

A grocer by origin, founder Vehbi Koc, 89, certainly has lived up to his name, which means ram in Turkish (a ram's head is the company's logo). He still is said to have the last word at board meetings. Son Rahmi, 59, runs the business, and U.S.-educated grandsons Mustafa, Omer and Ali are being groomed.

In the U.S., Koc has a small apparel business, New York-based Ramerica International (1989 sales, $50 million). According to S. Ugur Sabuncu, Ramerica's president, it's the first Turkish company to develop a successful brand name here: a moderately priced, Turkish-made line of young women's sportswear called Europrep. The line is now in thousands of stores, including J.C.Penney. Sabuncu has started advertising the sportswear nationally in magazines like *Elle*, and is aiming at finer department stores. This is in odd contrast to Ramerica's other activities: importing Turkish-made refrigerators and selling Canadian lumber.—**Zina Sawaya**

SABANCI BROTHERS

Sibling harmony

Turkey's other big conglomerate, Sabanci Holding A.S. (1989 sales, $4.4 billion), has two recently inked joint ventures. One is with Toyota Motor Corp. and Mitsui & Co. to make Toyotas. The other, with Philip Morris to make Marlboros, Chesterfields and Parliaments, was the Turkish government's idea, and the Sabancis were agreeable. Before becoming Prime Minister in 1983, now-President Turgut Ozal was Sabanci Holding's chief executive officer.

Of the group's 47 companies, the biggest is one of Turkey's most profitable banks, Akbank (1989 net profit, $149 million). According to Capital Intelligence, the Cyprus-based bank rating agency, a lot of Akbank's loans go to Sabanci companies (the bank claims only 12%).

The group's late founder, Haci Omer Sabanci, started in the 1930s with a cotton gin and a vegetable oil plant. Since 1966 it has been run by

Gilles Mermet/Sipa

Sakip Sabanci

his five sons. Sakip, 57, chairman, oversees the Istanbul-based companies; Haci, 56, runs food, cement and textiles; Sevket, 55, looks after international relations and trading; Erol, 54, banking and insurance; and Ozdemir, 53, is in charge of automotive and plastics.

Sevket once described the working relationship between the brothers this way: "Views are debated, details are gone into, and then we set about reconciling all the differences so as to reach a decision. I have yet to see one or more of my brothers persisting in a contrary opinion in any matter and remaining in opposition. . . . God rest him [father Haci], he left no scope for any complexes to emerge for any one of us." Quite a legacy.—**Zina Sawaya**

LEBANON

RAFIK B. HARIRI

That's him all over

Being in Saudi Arabia during the boom years was Hariri's luck. From modest beginnings in his native Sidon, Hariri became a big contractor as the protégé of Nasser Al-Rachid—not Saudi royalty, but still rich and powerful.

The student outgrew his master. From Saudi Arabia and his big Saudi Oger construction company, Hariri has branched out around the world.

Rafik Hariri

He's mainly based in France, as Holding de Participations et d'Investissements, which buys and develops real estate in Europe, North Africa and the Middle East. Subsidiary Techniques Environnement Sigoure treats polluted water.

In the U.S., the Hariri Group buys developed real estate, mainly in Washington, D.C., New York, Boston and Texas. Hariri recently bought

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Robert was sold on Hewlett-Packard PCs while he was still in college.

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Houston acreage, next to his 85%-owned Texas Commerce Tower. Hariri also owns Banque de la Méditerranée, with offices in France, the U.K., Switzerland and Lebanon (combined net total assets, $1 billion), and important stakes in French banks Compagnie Financière de Paribas and Banque Indosuez.

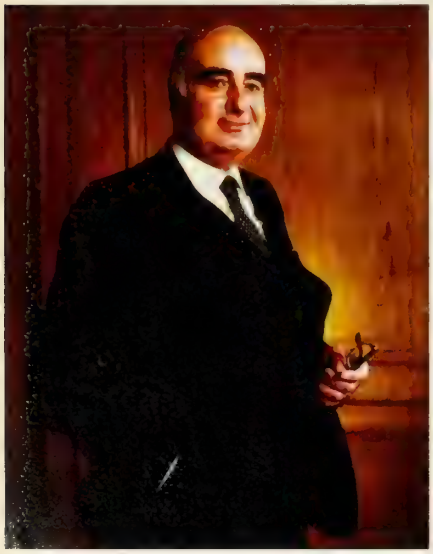
Widely admired in Lebanon for his hard work, integrity and generosity, Hariri has contributed millions to scholarships for Lebanese students, and for projects to rebuild parts of the country destroyed by civil war. Unfortunately, the crazed warlords and their backers far outnumber builders like Hariri, so the devastation proceeds.—**Zina Sawaya**

SAFRA BROTHERS

Apology accepted

A world-class row between American Express Co. and financier Edmond Safra now seems over. Amex bought Safra's private Swiss bank, Trade Development Bank, for $550 million in stock in 1984. Safra sold the stock, and started a competitor in Geneva on virtually the day in 1988

Karsh-Woodfin Camp



Edmond Safra

his noncompete agreement ran out. Last summer Amex admitted its employees were behind a press campaign libeling Safra by linking him to money laundering. Amex Chairman James Robinson III apologized and gave $8 million to Safra's favorite charities. Then Amex sold TDB for a tidy $1 billion, making a profit but throwing in the competitive towel.

Perhaps Robinson still hopes for the last laugh. He sold TDB to Compagnie de Banque et d'Investissements. It is headed by Edgar de Picciotto, Safra's Lebanese-born childhood friend before their families fled anti-Jewish sentiment in the 1950s. Now the two will be head-to-head competitors. De Picciotto starts out by far the larger of the two—his CBI-TDB Union Bancaire Privée has $17 billion under management. But Safra's outfit, with $3 billion, is growing fast.

In the U.S. Safra's Republic New York Corp. (assets, $25 billion) bought Manhattan Savings Bank (net worth, $270 million) this spring in a complex deal giving Republic "a very valuable savings and loan for next to nothing," according to one banking analyst. On the other hand, Republic took a hit last year: an 86% drop in net income, to $24 million, the result of adding $200 million to loan loss reserves against exposure to Latin America. That could be a warning. The Safras have known South America for years: Brothers Joseph and Moise run one of Brazil's biggest banks, Banco Safra (1988 reported assets, $2.5 billion).—**Zina Sawaya**

CITIZEN OF THE WORLD

THE AGA KHAN IV

Citizen Khan

To his 15 million Ismaili subjects, Prince Karim Al Hussaini, the 49th Imam, is the Prophet's direct descendant on earth. To the West he is Harvard '59, a hard-headed businessman who lives stylishly with his wife and three children on an estate outside Paris, is legally domiciled in Geneva and carries a British passport. Last year he invested $102 million in Giovanni Agnelli & Co., which indirectly holds Fiat stock and is mostly owned by sailing chum Gianni Agnelli. Through his own holding company, Fimpar, the Aga Khan, 53, has over 50% of a luxury hotel group, Ciga. He also owns about 700 Thoroughbreds and a stock portfolio, unrevealed but reputedly huge.

His hereditary title also carries an enormous cash flow asset: the *zakat*, or the 12% of their incomes that Ismailis—progressive Muslims and respected businessmen in the Third World —have been voluntarily contributing to the Aga Khans since 1817. Some of the estimated $100 million a year brought in by the *zakat* goes back to the community via an educational foundation. Then there's the Aga Khan Fund for Economic Development, a for-profit, Geneva-based investor in Ismaili businesses and other projects in the Third World.

No longer, says a spokesman, does the Imam invest in import substitution schemes. "We found ourselves making things like women's stockings that cost more and were of worse quality than the imports they were supposed to replace. Today we are building on the strengths of the local economies." Hence, hotels in Kenya and Pakistan. Or fine-leather tanning of exported animal hides. "Things that are replicable in [various] countries," he explains. Thus does this billionaire of the world—his spokesman denies he's that rich—move to integrate Third World economies into the global economy.—**Manjeet Kripalani**

Peter Paul Contrast/Gamma-Liaison

The Aga Khan IV

Introducing the A321, the latest Airbus aircraft for the short to medium haul market.

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And operated alongside the A320, these aircraft provide an unbeatable combination.

A321

AIRBUS INDUSTRIE

Four prefixes describe certain people widely regarded as billionaires. Some may just have it too well hidden. Others accentuate assets and downplay debts. Still others have lousy luck.

FORMER, NON, MAYBE AND WANNA BE

Non: Kuwait's **Al-Marzook family** proves to be less well endowed with real estate and more endowed with debt than we thought.

Former: Ramón Areces, the richest man in Spain, died last year at 84, leaving his estimated $2-billion-plus fortune to a foundation.

Maybe: Michel David-Weill, the French citizen and New York City resident who is the power at renowned international investment house Lazard Frères, has $800 million that we can identify, and perhaps much more.

Wanna Be: Italy's **Carlo de Benedetti** has had poor luck at his empire building this past year; his visible net worth comes to near $600 million.

Maybe: Henry Fok (rhymes with "luck") of Hong Kong has a minority interest in Stanley Ho's Macao casino empire, and perhaps much more.

Former: Akikazu Fujisawa, proprietor of Tokyo's Yodobashi Camera shops, is having earnings trouble. Even his Shinjuku district real estate seems not enough to keep him on our listing.

Maybe: Sir James Goldsmith, assumed by many in the press to be a billionaire, remains off our list not because of his failure with B.A.T Industries so much as because of the one big unanswered question: How much debt was there in his empire before he started cashing out some of his holdings?

Non: Alfred Heineken, heir to the Dutch brewing fortune, owns half of a publicly traded trust that, in turn, owns half of the famed Heineken Brewery. Value of his portion therefore: about $500 million.

Maybe: Stanley Ho, the mysterious controlling partner in Macao's casino cartel, is exceedingly rich, but too little else is visible to include him.

Non: Japan's **Iketani family** has put too much of its Tokyo Steel stock holdings into a foundation to find a place on this listing.

Maybe: Saudi Arabian **Saleh Kamel** heads Al Baraka Group, which operates a string of Islamic banks throughout the Middle East and North Africa. The company also does maintenance work and contracting, and has several foreign franchises. The group's total equity is nearly $900 million.

Former: The visible net worth of Japan's **Masao Kato** and family fell below $1 billion, as the earnings of their privately held corn syrup maker, Kato Kagaku, dropped.

Former: The stock of Japan-based international builder Kumagai Gumi collapsed last year, taking the **Kumagai family's** holding far below the $1 billion mark.

Former: Hong Kong's **Lee Shau-kee's** Henderson Land collapsed after the Tiananmen Square disaster along with other Hong Kong real estate stocks. But unlike, say, Kwok Tak-seng's, Lee's stock didn't bounce back enough to restore him to the billionaires' ranks.

Maybe: Costas Lemos, said by some to be the richest Greek shipowner of them all, currently has only five ships; with identified real estate, what's visible is estimated at around $250 million. If he has more than $1 billion, he's hidden it well.

Maybe: The **Livanos family,** another Greek shipowning name to conjure with, has over 20 ships currently, but not enough other identifiable holdings to call them billionaires.

Maybe: Japan's **Masao Nangaku** has more debt than previously realized, and some land on long-term lease rather than directly owned.

Non: The late **Christina Onassis'** daughter Athina, now 5, is the diminutive heiress to a famous name and a shipping empire worth about $500 million. At 10%, she'll be a billionairess by the time she hits junior high school.

Maybe: South Africa's **Harry Oppenheimer's** visible holdings are worth about $800 million; whatever else there may be remains to be tracked down.

Non: Osman Ahmed Osman founded Egypt's giant Arab Contractors Co. but doesn't operate it. The Egyptian government, not Osman, owns it.

Non: Saudi Arabia's **Ghaith Pharaon,** who was once a near-billionaire, continues to wrestle with financial problems.

Former: Ted Rogers, the Canadian cable TV and cellular phone king, has holdings in his Rogers Communications that topped $1 billion earlier this year, but more recently fell to $800 million.

Wanna Be: Gerald Ronson, proprietor of Britain's Heron International, still seems to be hovering below the $800 million mark.

Non: India's legendary **Tata family,** who basically created India's industrial base, continues to run significant slices of the Indian economy. However, the bulk of the ownership resides in charitable trusts.

Non: Germany's **Thyssen family,** much of it resident in Argentina, is related to a billionaire *(see Thyssen-Bornemisza),* but its holdings in the Thyssen steel empire still fall far short of $1 billion.

Former: Sweden's **Wallenbergs** dominate their national economy, but do so through a series of foundations in which most of the ownership of their huge empire resides.

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A TRANSATLANTIC PARTNERSHIP

GERMANY AND THE UNITED STATES

By Richard Jacob

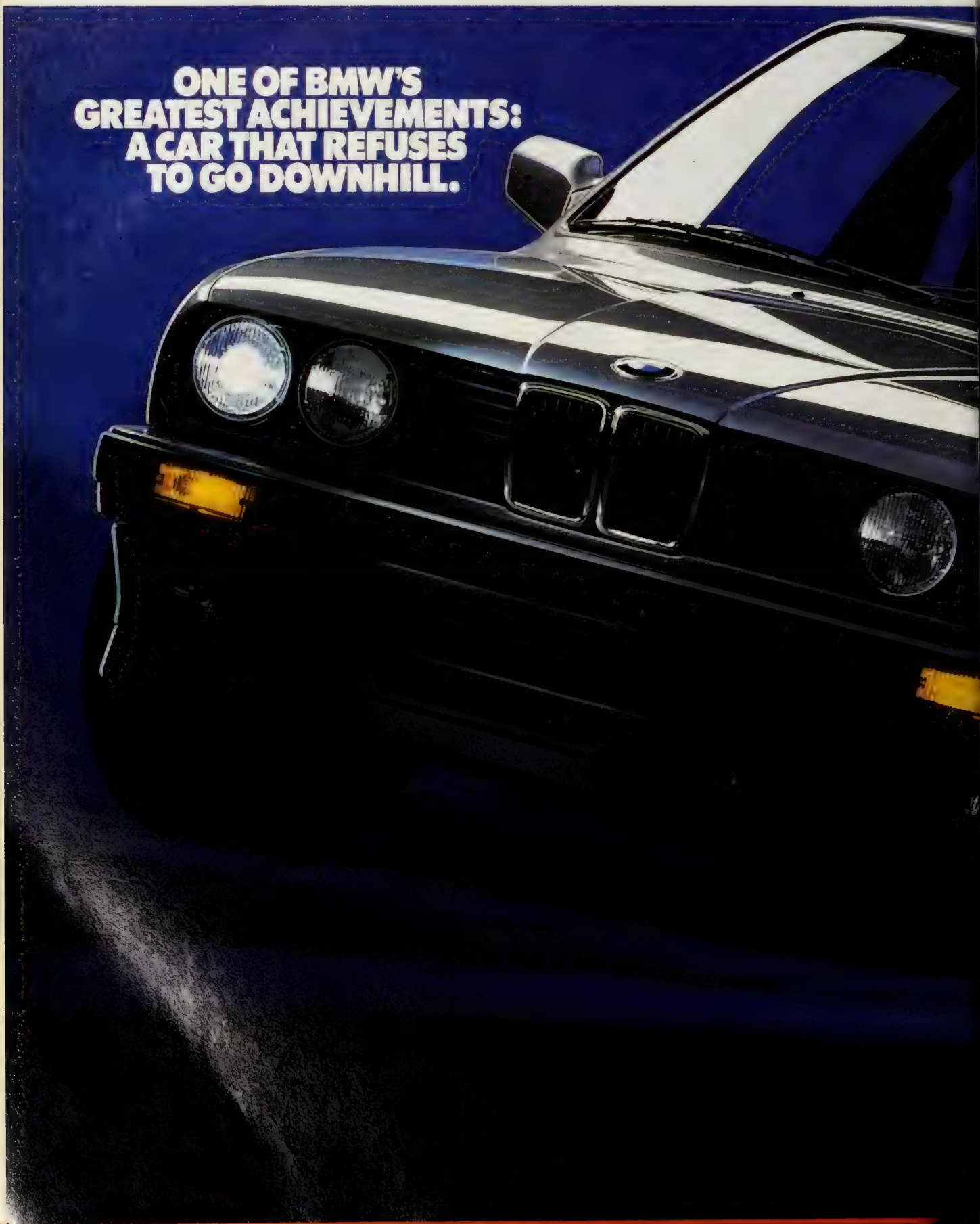
A free, united Germany within a free, united Europe" was the vision of the Federal Republic's first Chancellor, Konrad Adenauer. As recently as a year ago, the feasibility of a free, united Germany seemed, well, visionary, at least in this century. That it is about to happen is now all but inevitable.

While political and economic ferment in the Soviet Union has been a major catalyst in this process, the current reconfiguration in Central Europe would scarcely have been conceivable without the close partnership that has evolved between the U.S. and West Germany over the last 40 years.

Reuters/Bettmann Newsphotos

This special report was jointly sponsored by the German American Chamber of Commerce and the Friendship in Freedom Initiative.

According to the laws of automotive physics, all cars must age. Some just do it much more gracefully than others. One car, however, appears to buck the trend entirely: the BMW 325is. Car and Driver tested one while new, then put it through identical tests after 30,000 mercilessly driven miles. At which time it was found to accelerate quicker, reach a



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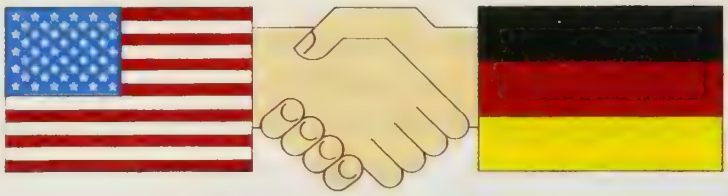

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The political aspects of this relationship have long been fairly obvious, some even predating the foundation of the Federal Republic in 1949. Less well known are the strong economic and business ties that have grown and matured during this period. The genesis of the latter can actually be traced back to the 18th and 19th centuries.

The historical paradigm for the close political and economic partnership between the U.S. and the Federal Republic of Germany was set by the Treaty of Amity and Commerce that the U.S. signed with Prussia in 1785. Only the fourth international agreement signed by the fledgling American republic, it provided for greater freedom of maritime commerce than any other treaty the U.S. had yet concluded. It was signed in September 1785 by a Prussian diplomat under the authority of Frederick the Great and, for the American side, by Benjamin Franklin, Thomas Jefferson, and John Adams.

Writing to a friend in France, George Washington said that "the Treaty of Amity . . . between the King of Prussia and the United States marks a new era of negotiation. It is perfectly original in many of its articles. It is the most liberal Treaty which has ever been entered into between independent Powers." Not a bad way to start a relationship.

Ties That Bind

If the U.S. is a nation of immigrants, then the German element must be accorded substantial credit for its contributions in building the nation and developing its culture. A proclamation signed by President Reagan in 1987 noted that more Americans trace their heritage back to German ancestry than to any other nationality—one in four. More significantly, according to the White House, "few people have blended so completely into the multicultural tapestry of American society and yet have made such singular economic, political, social, scientific and cultural contributions to the growth and success of these United States as have Americans of German extraction."

The Harvard Encyclopedia of Ethnic Americans puts total German emigration to the U.S. between 1820 and 1900 at around 7 million, and it estimates that between 1850 and 1900 Germans were never less than a quarter of all the foreign-born in the U.S.

First as farmers and artisans and later as entrepreneurs, Germans left an indelible imprint on the economic landscape of the U.S.

Today, of course, the descendants of this huge pool of humanity have been fully assimilated, but their ancestors bequeathed such important artifacts to the core of Americana as Santa Claus, the Christmas tree, hot dogs, hamburgers and the kindergarten.

In a more serious vein—and earnestness is both a German vice and virtue—German immigrants and their descendants in the 19th century furnished a major resource of muscle and brainpower in developing the territories west of the original 13 states. First as farmers and artisans and later as entrepreneurs, Germans left an indelible imprint on the economic landscape of the U.S.

Many became legends in their own time. John Jacob Astor's ruthless fur-trading operations west of the Mississippi provided the first impetus to the colonization of the West and helped to make him the richest man of his time in the U.S. Frederick Weyerhaeuser left Germany a penniless youth in 1852, earned the title of "the lumber king," and left a fortune estimated at $300 million when he died in 1914. Not to be forgotten either is Karl Steinmetz, whose seminal

Museum für Hamburgische Geschichte

Immigrants arrive in New York. Between 1820 and 1900 some seven million Germans emigrated to the United States.

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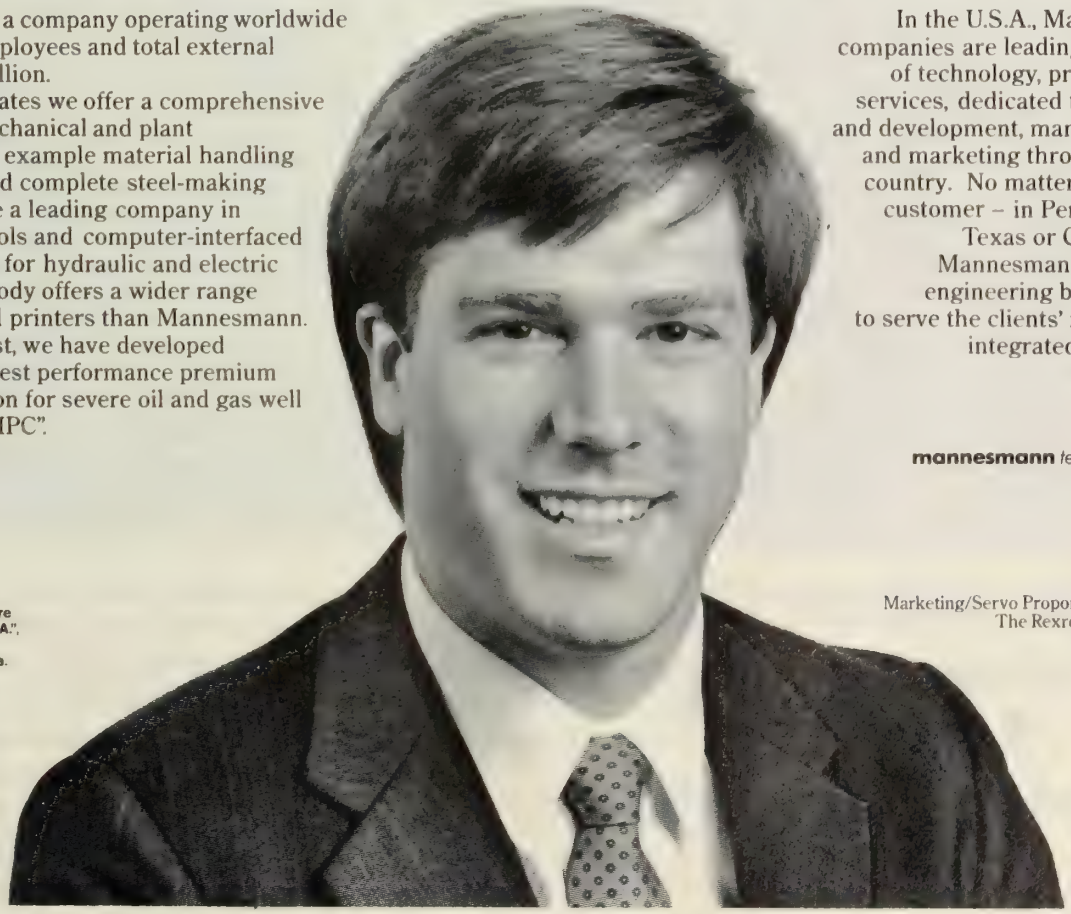

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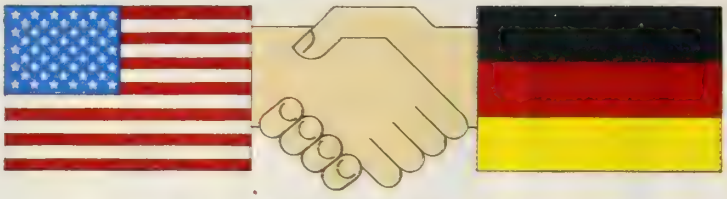

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Skyline of Frankfurt, Germany's financial center.

German National Tourist Office

discoveries in electricity laid the foundation for the future success of General Electric.

Names like Anheuser-Busch, Chrysler, Heinz, Timken, Levi Strauss, Hershey, Kraft, Westinghouse, Mergenthaler, Bausch and many other icons of U.S. business today testify to the energy and business acumen of these 19th century immigrants and their offspring.

The Road Back

1945 is known in modern German history as "Year Zero." Its factories shattered, the transportation and communications infrastructure in disarray and the population on the brink of starvation, the first three years in Germany after World War II were, in the words of the *Economist* of London, "utter economic hell."

Washington and the director of the U.S. military government, Lt. General Lucius Clay, were the first to recognize that some degree of reconciliation and economic support would have to accompany the political rehabilitation of a defeated Germany. In 1946 President Truman asked former President Herbert Hoover to survey the economic problems in occupied Germany. In his report to the White House Hoover stated the dilemma succinctly: "You can have vengeance, or peace, but you can't have both."

As it became more obvious in 1946 that four-power agreement on the future of Germany as a whole would be impossible, General Clay began to formulate a policy whose objective was relatively simple and clear: turn the western zones of Germany back to the Germans and then turn them loose to rebuild their devastated economy.

Secretary of State James Byrnes gave the signal for this change in official U.S. policy in a key speech in Stuttgart on September 6, 1946. Declaring that the Germans must be given a greater measure of self-government so that they could become self-supporting, Byrnes' speech reached its telling climax with these words: "The American people want to help the German people win their way back to an honorable place among the free and peace-loving peoples of the world."

In the following years, economics provided the foundation upon which the German people could build a democratic society. In his famous commencement address at Harvard University on June 5, 1947 Secretary of State George Marshall proposed what would later be known as the Marshall Plan: "Any government willing to assist in the task of reconstruction will find full cooperation on the part of the United States." Germany was invited to participate. The second step that ultimately led to the so-called German "economic miracle" was Ludwig Erhard's decision in July 1948 to abolish rationing of food and other essentials and to lift all wage and price controls. In effect, Erhard, the future minister of economics of the Federal Republic of Germany, was acting on his admonition to the postwar Germans to "turn the money and the people loose and they will make the nation strong." As the saying goes, the rest is history.

The American Connection

In a speech in New York last year, a leading German business executive, Dieter Spethmann, the chief executive officer of Thyssen AG, said: "The Americans were the most important godparents at the cradle of the Federal Republic of Germany," and he noted that "the friendship between the U.S. and the Federal Republic is a fact, socially, politically, economically and militarily."

To be sure, U.S.-German relations today must be viewed against the background of American political support for West Germany, which has been as tenacious as it has been consistent, from the Berlin airlift in 1948 to President Bush's forthright endorsement of German uni-

Frenkel & Co. Inc.

The growing numbers of German companies with subsidiaries in the U.S. provide growing opportunities for American companies offering financial services. New York-based Frenkel & Co. Inc., for instance, provides a host of commercial insurance and risk management programs to the U.S. subsidiaries of German firms. "We are particularly proud of our association with our many German-American clients," says executive vice president, Martin Elkinson. "We can work directly with U.S. subsidiaries of a German parent and equally well in conjunction with a captive broker, risk manager or an independent correspondent broker located in Germany."

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ication. Indeed, the postwar history of J.S.-West German political relations has represented a genuine partnership as well as an alliance, even if one side has been a somewhat junior partner.

The less public dimension of this relationship has been the close economic condominium that has evolved between the two countries. In this instance the relation has been considerably more equal, with a rich fallout of benefits to both countries. Providing a concrete foundation to the political superstructure, the strong commercial ties that bind the U.S. and the Federal Republic vividly support Woodrow Wilson's description of business as "the organization of the energies of peace."

The Economic Imperative

As the perceived military threat from the Soviet Union recedes, the major global challenge facing the U.S. today is to redress its substantial foreign trade deficits. While the U.S. merchandise trade with West Germany has been in the red for most of the 1980s, the deficits have declined sharply and steadily since 1987. (U.S. trade accounts with the Federal Republic in the 1970s were either in surplus or in virtual equilibrium.) Over the last three years, the U.S. shortfall has plunged from $16 billion to approximately $8 billion. By comparison, the American deficit with Japan last year amounted to $49 billion and $13 billion with Taiwan.

The reasons for the improvement in the U.S.-German trade ledger have been twofold: a depreciating dollar that makes imports more expensive and an aggressive sales effort by U.S. exporters.

German car exporters have felt the impact of the higher price tags on their products in the past two years. Now they face a looming challenge from new high-performance cars from Japan, and they are not intimidated. Says Karl Gerling, the president of BMW of North America: "While we will be a quickly moving target when it comes to innovation and meeting needs in the market, every BMW will continue to be based on the philosophy of performance and driver orientation through advanced technology and design."

Every BMW will continue to be based on the philosophy of performance and driver orientation through advanced technology and design.

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A more telling profile of the U.S.-German trade relationship emerges from an analysis of the composition of U.S. exports to the Federal Republic: according to the U.S. Department of Commerce, 84% of U.S. sales of $14 billion to West Germany in 1988 (the latest breakdown available) consisted of manufactured goods and sophisticated high technology. Or, as Werner Walbrol, executive director of the New-York-based German American Chamber of Commerce, observes: "You can't just look at the volume of trade between the U.S. and Germany. You have to examine the 'quality' of the trade relationship. We're not talking about Americans buying cars or stereos and selling beef and timber in return."

Another gauge for measuring the dynamic trend in commerce between the U.S. and Germany is the figures on air freight and travel. Lufthansa German Airlines reports that its air freight between the U.S. and Germany more than doubled in the last decade, from 103 million tons in 1980 (includes Canada) to 213 million tons last year (U.S. only). During that same period, passenger traffic leaped by just under 100%, from 920,905 to 1,746,850.

Returns on Investment

While foreign direct investment in the U.S. has in recent years become a highly controversial and occasionally emotional issue, Federal Reserve Board Chairman Alan Greenspan does not number himself among the xenophobes. In testimony before Congress in January, he described concerns as overblown because "foreign investment in the U.S. spurs competition, provides infusions of new capital and speeds the spread of technological advances."

An examination of German fixed investment in the U.S. provides some illuminating support for Greenspan's position.

Mutual private direct investment by West Germany and the U.S. is, in the first place, in approximately equal balance. Estimates by the Department of Com-

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German American Chamber of Commerce

The German American Chamber of Commerce, a membership organization, provides a unique opportunity for establishing top-level business contacts with German companies - both in Germany and the U.S. The Chamber also offers a variety of services, available to non-members as well, such as business development projects, an ambitious seminar program and key publications on "how to do business in Germany."
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Company
Address
Name and Position
Type of Business

Over 55% of German direct investment in this country is in the manufacturing sector.

merce place U.S. direct investment in the Federal Republic by the end of 1988 at $21.7 billion; German investment in this country during this same time frame stood at $23.8 billion. (By comparison, Japanese investment in the U.S. amounted to some $66 billion versus $17 billion of U.S. holdings in Japan.)

Employment and job-creation in this country have also benefited. The latest Department of Commerce figures put total employment of U.S. nationals by foreign subsidiaries in this country at 3,160,000, and Frankfurt-based Commerzbank estimates that German companies located in this country—and their U.S. subsidiaries—employ some 400,000 Americans.

Trade Fairs

Germany's world-renowned trade fairs offer U.S. businesses unique opportunities for developing markets in Germany and Europe. The Cologne trade fairs, for example, sponsored 26 international shows in 1989 that drew over one million buyers from 145 countries. The Frankfurt trade fairs reported a veritable boom in American business, with a 42% leap in U.S. exhibitors to 950 and a 17% increase in U.S. visitors to 10,000. Information and details on upcoming shows can be obtained from the U.S. representatives, Mr. Hans Teetz (Cologne) and Mr. Philip Hans (Frankfurt) at (212) 974-8830.

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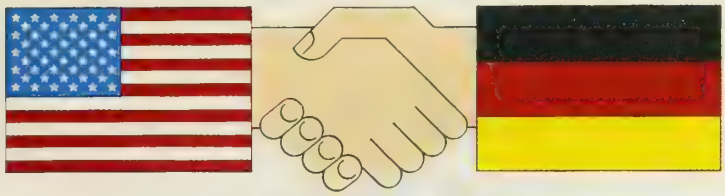

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On the other hand, technology trans-
er is, by its very nature, more difficult to
dentify and measure. One benchmark
with regard to German technology
ransfer to the U.S.: over 55% of German
direct investment in this country is in
he manufacturing sector, a share ex-
ceeded only by France.

One leading example of this phe-
nomenon is the Las Vegas People
Mover, the first magnetically levitated
transit system to be built in North Amer-
ca. Magnetic Transit of America Inc.
(MTA) is the system supplier; MTA in turn
s a member of the AEG Westinghouse
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portation activities of Frankfurt-based
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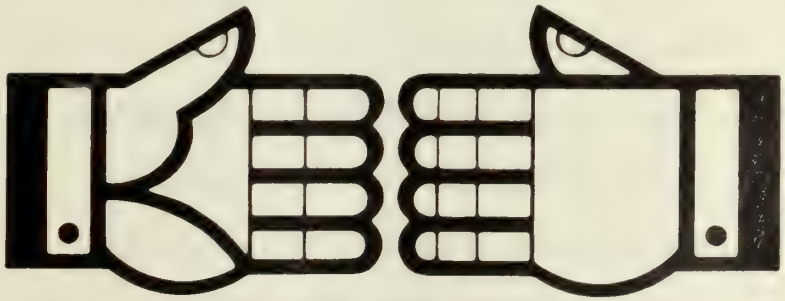

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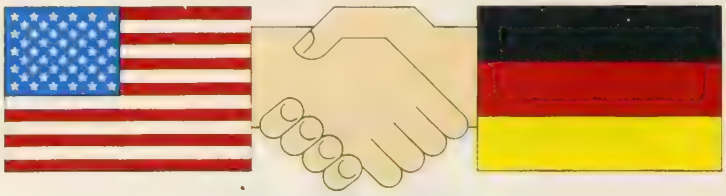

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netic levitation transportation system to link Las Vegas and Los Angeles: the revolutionary train, capable of speeds in excess of 250 miles per hour, promises to cut overland travel time for the 230-mile stretch to just over one hour.

Dusseldorf-based Mannesmann AG, too, supplies a wide range of sophisticated technology to the American market, including high-tech process-control and automation systems as well as hydraulic components and systems. Not least of all, German aerospace giant Messerschmitt-Boelkow-Blohm and its U.S. subsidiary, MBB of North America, have for many years provided sophisticated technology to NASA's space program, particularly the space shuttle.

Into the Future

West Germany today is the world's fourth-largest economy, the second-largest exporter and the world's largest holder of foreign currency reserves. With the West German deutschmark having become the offical currency of East Germany on July 2, the two Germanys have effectively completed the first step toward economic unification. Full unification will create a Germany half the size of Texas with a population of just under 80 million.

Still, this increase in physical resources and population is unlikely to affect German external accounts significantly for some time to come. Preliminary estimates place the cost of rehabilitating East Germany's antiquated infrastructure, plant and housing at more than $400 billion, and that figure is probably conservative. In addition to diverting a fair share of Germany's financial and industrial resources to internal ends in the immediate future, this gigantic rebuilding program will also present U.S. business with enormous opportunities.

Full unification will create a Germany half the size of Texas with a population of just under 80 million.

The immediate political issues involve Germany's continued role in NATO, i.e., in essence the transatlantic bond that has enabled the West Germans to develop a sovereign nation in democracy and prosperity. Chancellor Helmut Kohl addressed this question directly and candidly at a May press conference in Washington: "The *friendship* and *partnership* with the United States continue to be vital to us Germans; naturally this also applies to a united Germany of tomorrow." ■

"The German-American partnership and the Western Alliance represent the most basic foundation for peace and prosperity in the Federal Republic of Germany. We would never have been able to accomplish reconstruction and the economic miracle so rapidly and successfully in the aftermath of an unholy war without the generous aid of the United States. We in the Federal Republic of Germany have not forgotten this fact, and it must remain indelibly fixed in our memories. I cannot conceive of a united Germany that is not anchored in the European Community and in a close and trusting relationship with our friends in the United States."

Edzard Reuter
Chairman
Daimler-Benz AG

Richard Jacob is a New York-based writer and consultant on Germany and Eastern Europe. He is also the Editor of the *United States-German Economic Yearbook*.

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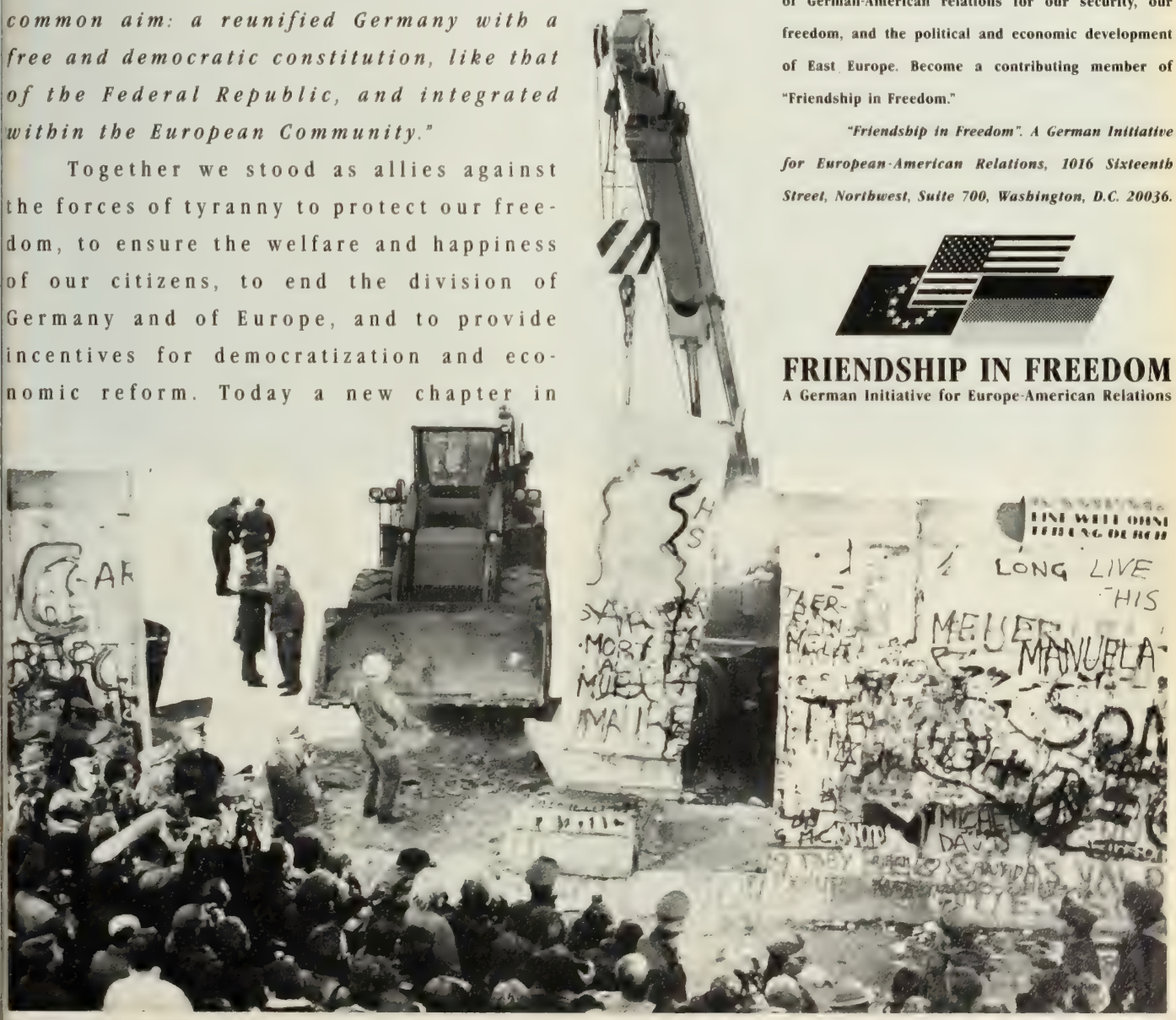

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If you want to run a bank some day, you could go to a fancy business school, but a better course is offered by Wells Fargo.

Boot camp for bankers

By Seth Lubove

WOULD YOU RATHER have a prestigious business school on your résumé? Or Wells Fargo & Co.?

For bankers on the way up, San Francisco's Wells Fargo has become what Procter & Gamble was to the consumer goods industry, what Macy's was to retailing—a widely respected training ground whose alumni are now running companies in their industry all over the country. Some examples: Newly appointed BankAmerica Chairman and Chief Executive Richard M. Rosenberg, as well as Frank Newman, Glenhall E. Taylor Jr., Lewis W. Coleman and Thomas E. Peterson (all vice chairmen), are all former high-ranking Wells Fargo officers. John F. Grundhofer, a former Wells vice chairman, was recruited to turn around ailing First Bank System of Minneapolis. Grundhofer's brother Jerry, a former Wells executive vice president, was recently tapped as president of Security Pacific National Bank in Los Angeles.

David Weintraub

Wells Fargo Chairman Carl Reichardt (left) and President Paul Hazen
"We're not in a terribly complex business."

Robert M. Walker, a former Wells senior credit officer, is presently senior executive vice president of Valley National Corp. of Phoenix, parent of the state's largest independent bank. A. Jay Meyerson, an executive vice president of Ameritrust Co. of Cleveland, had been a vice president at Wells. The president of AT&T's new credit card operation, Paul Kahn, trained at Wells.

As in a U.S. Marines boot camp, Wells Fargo middle managers are thoroughly drilled in a few basic combat principles. Then they're thrown into the business world to survive and prosper, or not, depending on their ability and drive. "You're encouraged to take a chance and make decisions," says Joseph P. Stiglich, 43, a senior vice president who oversees 25 of Wells Fargo's 486 branches. "The biggest sin is to not make a decision."

This pragmatic approach is a reflection of Wells' blunt-spoken Chairman Carl Reichardt, 59, a former real estate lender who joined Wells Fargo in 1970 to create its real estate investment trust. Reichardt, who was named chairman in 1983, has created an environment that rewards managers who think like businessmen that happen to be in banking. "We're not in a terribly complex business here," he says. "We don't need rocket scientists. We're dealing with fairly simple issues that lend themselves to numerical expressions."

John F. Grundhofer, 51, left in January for First Bank System. Asked what was the most important skill he learned at Wells Fargo, Grundhofer responds: "Mental toughness. At First Bank, we had too many people; the efficiency ratio was and is horrible. We laid off 1,500 people out of 10,700, and that is something that is tough to do. This is Minneapolis. The Midwest. Nice people, quality and hard-working and a lot had done nothing wrong, but they were misdirected with respect to strategies. You need mental toughness to do that."

Wells alumni at BankAmerica: Richard Rosenberg, Frank Newman, Glenhall Taylor Jr., Lewis Coleman, Thomas Peterson
Says Reichardt: "We sure do have a lot of good friends around."

Careers

To minimize the need to fire masses of people, Wells Fargo managers try to fire, and hire, incrementally. Wells higher-ups closely monitor rising bankers through a stream of progress reports. At any particular time they have a good idea of who's succeeding and who's not. Promotion and firing decisions are made largely on the basis of how people measure up to their goals, be they goals to increase home equity loans by a certain percentage or to cut back-office costs by so much.

"Yes, we do ask people to leave," acknowledges soft-spoken Paul Hazen, 48, Wells Fargo's bespectacled president and Reichardt's longtime alter ego. "The only way to deliver to the people who are achieving is to not burden them with the people who aren't performing."

Central to the Wells Fargo approach is the belief that banking can be reduced to a few essential principles and that these principles can be efficiently transmitted throughout the organization. Theodore J. Rogenski, the president of Wells' leasing subsidiary from 1981 to 1989 and now in a similar position with John Hancock Financial Services, puts it this way: "Carl sticks to real basic principles. If he were an Olympic diver he would not do a five-flip twisting thing, he would do the best swan dive in the world and do it perfectly over and over again."

First Bank System's John Grundhofer
Wells taught mental toughness.

The related emphases on performance and overhead were made most apparent in 1986 when Wells acquired Crocker National Corp. from Britain's Midland Bank Plc. Bloated with bad loans and excess people, Crocker quickly felt the Wells ax: 5,000 people got pink slips.

Crocker has now been fully digested, and Wells' overhead is once again among the lowest in the industry. But that doesn't mean the company skimps on salaries. It isn't unusual for a branch manager to pull down $100,000 a year in salary and commissions, and Wells makes a public example of those who do.

Wells, though, gets its money's worth. Recalls Jay Meyerson of Ameritrust: "There is a bias toward doing whatever it takes. That translates into long hard hours. There's no such thing as banker's hours."

Relentlessly cutting the fat has another happy by-product. Absent the entrenched bureaucracy of other banks, things happen quickly. In the spring of 1989, for example, several senior Wells managers heard that Bank of America would soon be offering Saturday hours. The Wells people mobilized and, working around the clock on plans for marketing and systems, they managed to arrange Saturday openings within a week. By the time Bank of America came out with its Saturday service, it seemed like an also-ran.

"I submit to you that in most organizations the decision process would have been two or three months," says Jack Kopec, a Wells executive vice president currently on sabbatical doing consulting work and teaching.

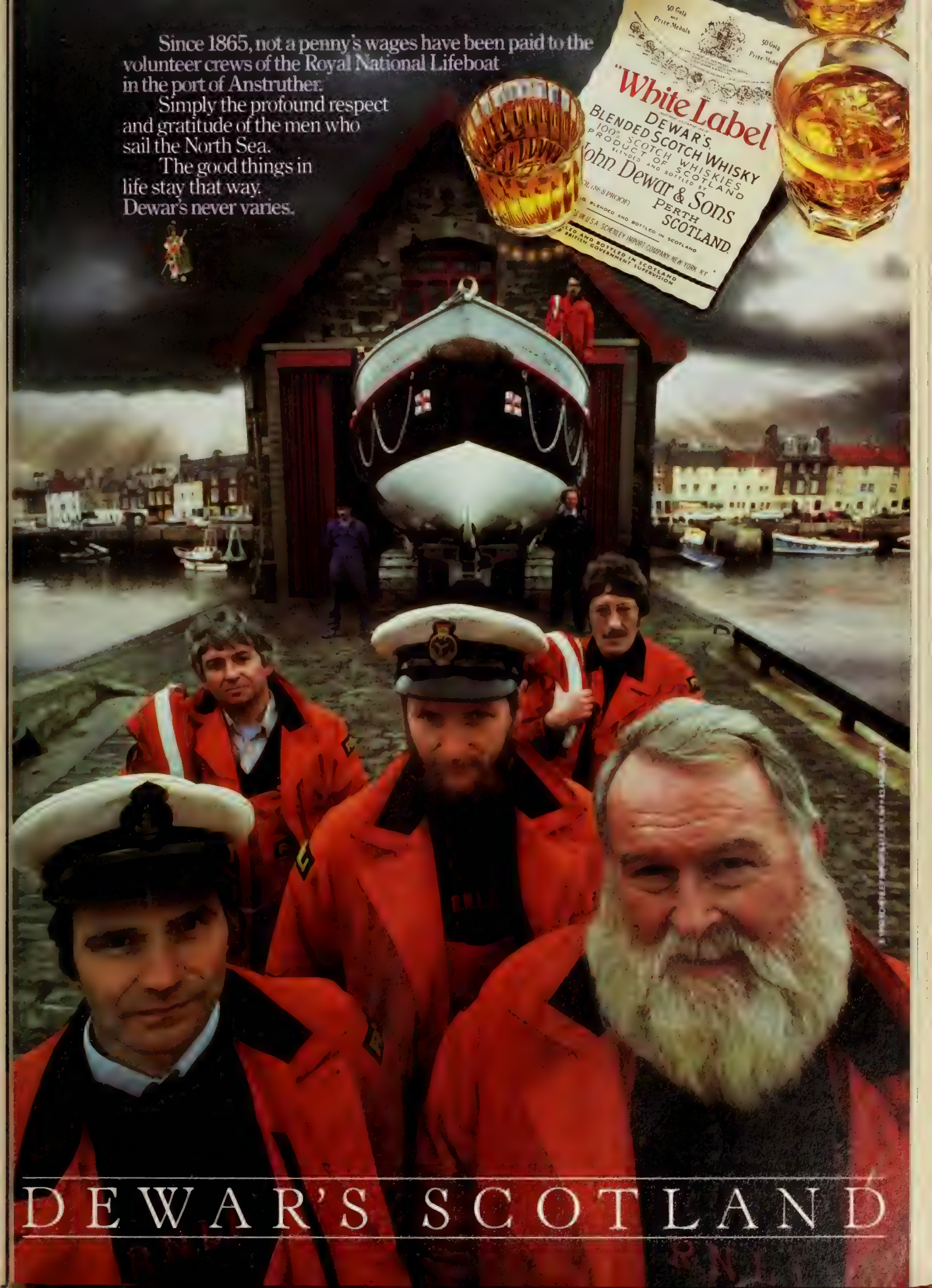
To return to the analogy with the Marine Corps, Wells considers many characteristics in picking its people. A Wells manager could have started his career as a furniture salesman, a waiter or football player.

A talent at selling is a plus. A Wells Fargo senior vice president, Kathleen Harrington-Lucier, was impressed with a waitress at a local Mexican restaurant. "She was cross-selling us everything on the menu," she recalls. So Harrington-Lucier, herself a former bank teller who now oversees 24 branches, slipped the waitress a business card and later hired her as a personal banking officer trainee working with Wells' wealthy private banking clients. It's hard to imagine that kind of thing happening at most of New York's M.B.A.-degree-obsessed big commercial banks.

Inevitably, Reichardt lives under something of a self-imposed curse. Having created a culture that produces so many top-quality managers, Wells is a frequent target of raiding headhunters. Between 1987 and 1989 alone, the bank lost almost a quarter of its senior management staff. Reichardt and other senior Wells managers agree that it is flattering to be thought of as a training ground for the industry. On the other hand, no one likes to invest time and energy in someone, only to watch him or her walk into the arms of a competitor. Trying to put the best face on the problem, Reichardt says: "We sure do have a lot of good friends around." It's safe to say he'll have more. ■

Roger Mastroianni

Ameritrust's A. Jay Meyerson
No banker's hours.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Should we love the Japanese for giving us a new generation of color computer screens or hate them for walking away with a technology invented here in the U.S.?

The new, improved color computer

By Andrew Tanzer

OVER THE NEXT YEAR such Japanese electronics giants as NEC, Sharp, Hitachi and Toshiba will market a new generation of laptop computers with strikingly beautiful color liquid crystal displays. The technology, a more sophisticated version of the liquid crystals in your digital watch, will rival existing computer displays in color, brightness, contrast, viewing angle and response speed. Unlike the competing technology of light-emitting diodes, which look like colored light bulbs, liquid crystals are not light sources, but rather like tiny shutters that can be turned on and off to block light.

The Japanese manufacturers believe the new liquid crystal screens will someday displace today's ubiquitous cathode ray tubes in desktop computers, because they are flat, lighter, consume less electricity, don't emit radiation and are softer on the eyes. Big securities trading rooms, with hundreds of screens, and cramped Japanese offices should make a ready market.

A big opportunity also awaits in consumer electronics. The Japanese have honed their skills on tiny color liquid crystal displays for products like the Sony Video Walkman and camcorder viewfinders. The new displays will find their way into everything from video telephones and personalized airplane seat-back movie screens to wall-mounted TV screens. "Flat displays will create many new products you can't even dream of, and liquid crystal technology will drive the whole display market," predicts Arthur Firester, director of the applied physics and advanced displays laboratory at SRI International's David Sarnoff Research Center.

"Everything is beautiful except the price," quips Takashi Shimada, head of Toshiba's electron tube and device division. Initially, the screens will cost about $2,000 each, pushing the price of a 32-bit laptop out of reach for most folks, at a hefty $7,000 to $10,000. But Japanese producers have set a target of $330 for the screens by 1995, when they project that half of the world's 40 million personal computers will have flat-panel—mostly liquid crystal—displays, compared with 10% today. The producers are hoping customers are less sensitive to price than, say, color TV consumers.

Isamu Washizuka, manager of Sharp's liquid crystal display group, likens his new color displays to early laser printers. "People thought that market would be limited, but as the price dropped lower and lower everyone wanted one," he says. "That's how new markets are created."

Now that's a simple marketing principle, as old as the Ford Motor Co. But as fast as the Japanese are learning it, we are forgetting it. The pioneering work in liquid crystal displays was done in the U.S., but the Japanese have reaped most of the commercial gain. The fundamental discoveries behind flat-panel color displays were made at the Sarnoff Research Center, once part of RCA. Yet, when General Electric bought RCA in 1987, it lost no time in dumping the Sarnoff center on the nonprofit SRI. Why? Getting all those scientists off the payroll helped the earnings statement, at least in the short term.

In all probability, the world liquid crystal display market will balloon tenfold this decade, to $13 billion, according to estimates by the Japanese industry, which expects to capture at least 75% of the market. Manufacturers are now pouring several billion dollars into the technology. Sharp, for instance, considered the

Torin Boyd

Sharp's Isamu Washizuka with an LCD display
When the price of a big screen drops sixfold, everyone will want one.

Inventor James Fergason with liquid crystal display
"We flubbed it badly."

Lance Lanaka

"It's a damned shame"

In May of this year U.S. Patent 3,731,986 expired. That was the patent granted to James Fergason in 1973 for the basis for most of today's liquid crystal displays. The story of liquid crystal displays is yet another depressing tale of how Americans pioneered a technology only to sit idly by and watch as the U.S. was surpassed by the Japanese in its development.

The idea to use liquid crystal materials for displays was first thought of by George Heilmeier and Richard Williams at RCA Corp.'s David Sarnoff Research Center in 1963. Heilmeier, who is now senior vice president and chief technical officer at Texas Instruments, went on to head a team of RCA researchers who were trying to develop a liquid crystal "TV-on-a-wall."

Liquid crystal TV sets haven't happened yet, but simpler displays for everything from clocks and calculators to auto dashboards and airplane cockpits were prototyped in the Sarnoff labs. Yet commercialization of the work never got off the ground. "They just didn't know what to do with it," remembers Heilmeier. "I secretly believe that RCA management really wanted to kill the project."

Over at Westinghouse's labs in Pittsburgh, Jim Fergason was also working hard on liquid crystals. In 1964 he published an article in *Scientific American* on liquid crystals. "Those drawings are still used today," laughs Fergason, 56. At Westinghouse Fergason came up with a kind of liquid crystal that changed color with changes in temperature. These were first used to measure body temperature for medical purposes.

In 1970 Fergason founded International Liquid Xtal Co., where he came up with the invention that became Patent 3,731,986. Unfortunately for Fergason, his patent application was delayed a few months because his lawyer kept postponing filing papers. This allowed a Swiss team to sneak ahead of him with a similar patent.

Even so, U.S. calculator manufacturers and watchmakers weren't particularly enamored of liquid crystal displays. They were betting on light-emitting diodes—the bright red dots that were used commonly in the early 1970s. By the time U.S. companies like Hewlett-Packard decided to switch to liquid crystal displays, it was pretty much over for the small U.S. companies in the business. His firm failing, Fergason signed over his patent to R. Hoffmann-LaRoche & Co., which employed the Swiss researchers, for a royalty deal.

Don't weep for Fergason. A fertile inventor, he holds 70 U.S. patents, with another 28 pending. His latest venture, Optical Shields Corp. in Menlo Park, Calif., uses superfast liquid crystal cells that go from clear to opaque in 1/20,000 of a second when hit with a bright light. The firm is turning this technology into devices to protect eyes and sensors from flashes of overly bright light, like lasers.

"U.S. industry just didn't have the vision to see the market for liquid crystal displays," says Fergason. "We flubbed it badly. For the country, it's a damned shame."—**Kathleen K. Wiegner**

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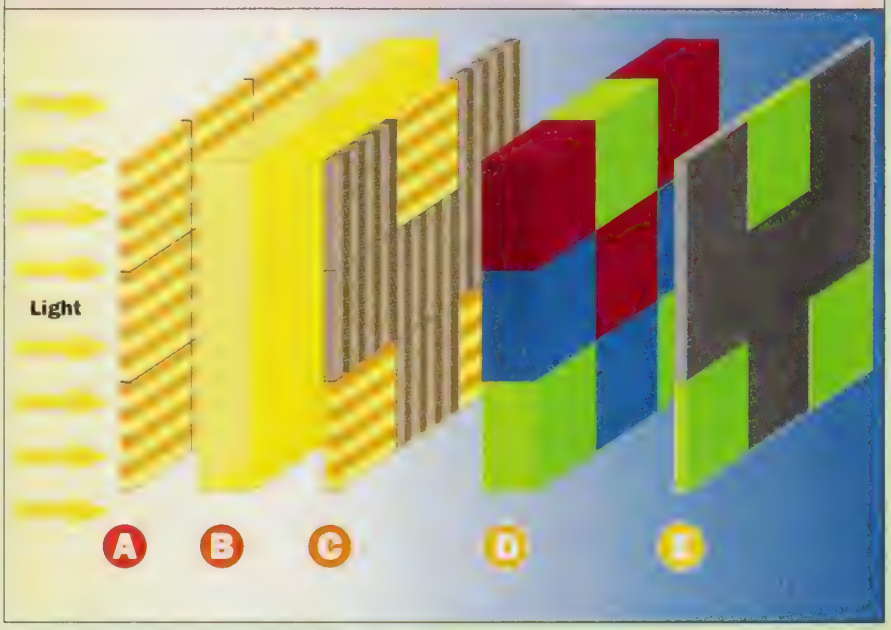
How to make a TV screen flat

Liquid crystal cells are like the shutter of a camera. Apply a voltage to a cell (C) and it twists to be perpendicular to a polarized filter (A), blocking light from reaching colored filters (D). Here, light passes through the polarized filter and glass substrate (B) but is blocked from red and blue cells. Green light is projected on the surface of this flat screen (E).



R. Mansfield Forbes

Comp/Comm

technological leader, is spending $700 million over three years; Toshiba will invest $500 million. There's more where that came from. Matsushita and Hitachi are each sitting on nearly $15 billion in cash, and even Sharp, a relative minnow, has a $4 billion hoard. This makes Japanese bosses much more willing to invest massively and sustain years of losses to dominate a strategic technology.

What are the U.S. companies doing? IBM has a liquid crystal display joint venture with Toshiba. Most other U.S. producers, such as tiny Ovonic Imaging Systems (FORBES, *Dec. 25, 1989*), are small firms supplying the U.S. military. "The U.S. is nowhere as far as displays go," advises Joseph Castellano, president of Stanford Resources Inc., a San Jose-based displays market research firm. "The investment community in the U.S. is just not willing to invest the money. There's a lack of confidence in the ability to compete with Japan."

The dearth of American suppliers means that U.S. computer makers will be in the vulnerable position of depending on Japanese competitors for the displays, which represent a large chunk of a PC's value. Most cathode ray tubes now come from Asia, but they are commodities. "If you're a U.S. laptop producer and you're buying from a Japanese supplier, you know you're going to be second in the marketplace and will have to divulge your specifications to a competitor," warns Sarnoff's Firester. Compaq, for one, is not worried. "The day when liquid crystal displays take over from cathode ray tubes for general desktop computers is a long way in the future," says Rod Canion, Compaq's chief executive.

While the American researchers were tinkering in the lab, Sharp started applying the knowhow to calculators, launching the first electronic calculator with a liquid crystal display in 1973. Next came watches and clocks, which the displays permitted to run on low-voltage batteries. The world's largest liquid crystal display manufacturer, Sharp began to put large-screen displays in Japanese-language word processors in the early 1980s. Over the past several years, a number of manufacturers have turned out a more advanced version of the screen for laptop computers.

Liquid crystals are like Polaroid sunglasses. If you place two pairs of these sunglasses at perpendicular angles, no light passes through them. That's the principle at work in liquid crystal displays. An electric field causes a liquid crystal cell sandwiched between two layers of glass to rotate 90 degrees and become dark when viewed through a layer of glass.

A more advanced "supertwisted" version is commonly used in today's laptop computers. In this technology, the cells are rotated more than 180 degrees, providing a higher-resolution screen. But supertwisted displays are basically a variation on the old simple matrix theme.

In the simple matrix version, the picture elements, or pixels, are activated by a matrix of intersecting rows and columns of electrodes. In the next generation of displays, active matrix, a thin film transistor is formed on the surface of the glass to control pixels individually, resulting in faster, more precise switching. These control elements, transistors and wiring, are almost invisible.

Color screens require three transistors to control liquid crystal microshutters which open and close to let light pass through green, blue and red filters overlaying portions of each pixel *(see diagram)*. Cathode ray tubes, on the other hand, produce color images by zapping single-color phosphor dots on the inside of the screen.

The sticking point is that large, active-matrix displays are devilishly difficult to produce. Using techniques derived from production of semiconductors, manufacturers etch transistors on a thin amorphous silicon film beneath the crystal picture elements. Making big screens is dicey. A 10-inch color liquid crystal screen contains nearly 1 million transistors. A single defective transistor can destroy the whole display (dud transistors produce a spot on the screen). Industry sources estimate that one or two good screens out of ten is par right now. By contrast, in a mature production line for memory chips, a yield of anything less than 80% is cause for concern.

The electronics firms are confident that, as with memory chips, when they refine the production process, yields will rise and costs will drop. That, at least, is the lesson the Japanese firms have learned from their experience with advanced semiconductor technology, something many U.S. computer firms don't possess. Sharp, for instance, is investing to boost output from 3,000 10-inch screens a month to 10,000 next year and 50,000 in 1992. Reasons California market researcher Castellano: "There's so much money going into it that it almost has to work." ■

Computer companies need a mix of creativity and pragmatism. Software publisher Symantec Corp. has finally found a good mix with a very clever program.

Talk to your computer

By Julie Pitta

GIVE ME ALL EMPLOYEES whose sex is male and whose hobby is bowling." We submit that question to Symantec Corp.'s Q&A software, one of the few natural language database programs that can run on personal computers.

A cheap desktop computer based on the Intel 286 chip parses the question, searches a small demonstration database of personnel files, and lists the male bowlers.

"Give me all employees whose sex is female and whose salary is more than the average salary for male employees." This is a tougher question. No averages are in the database, so the program has to understand what an average is and how to calculate it. In seconds, the computer delivers the right answer.

Now we throw a curve ball. "Give me all employees who list sex as their hobby." Q&A is flustered. Although all the words in that question are in its vocabulary, it fails to deliver the correct answer (which is "none") and instead lists all employees in the database, irrespective of sex or hobby. But what do you expect from a little program that costs $349 and needs only 512 kilobytes of memory to run?

Q&A is, along with graphical interfaces and the mouse, one of the great steps forward in making computers friendly to their users. Someday, no doubt, there will be variations on this program, with much larger vocabularies, a better understanding of English syntax and more common sense. In the meantime, the program is contributing mightily to the success of Symantec, a Cupertino, Calif. software firm whose stock has doubled since being offered to the public a year ago. Q&A accounted for one-third of Symantec's $50 million of revenues in fiscal year 1989.

It wasn't always smooth sailing for Symantec. Founded by creative wizard Gary Hendrix, now 42, the firm ran up 7 years of losses before turning profitable last year. The company was full of ideas but rather lacking in practical business sense until Hendrix was joined in 1984 by Gordon E. Eubanks Jr., now 43 and the company's chief executive officer. As Hendrix likes to put it: "Mr. Crazy met Mr. Practical." Eubank's practical accomplishments include the recent purchase of Peter Norton Computing, a privately held developer of "utility" programs with sales of $25 million. The best-known Norton program recaptures files lost on hard disks.

Practicality was not in the business plan when Hendrix put together a group of Stanford University researchers in the discipline of natural language processing. After a National Science Foundation grant ran out, Hendrix went looking for venture money. He got it: Artificial intelligence was hot and venture firms were eager to invest. But by 1983 Symantec was no closer to finishing a product than when it began. Eubanks, meanwhile, was struggling with his own small company, also working on a database product. The two merged at the behest of their investors.

"We had the high-tech magic that Gordon's group didn't," Hendrix says. "But they knew how to do things like writing tight code [computer instructions] and working out bugs, things you don't learn getting a Ph.D. . . . When we could see our ideas on [computer] screens, we had to respect [Eubanks' people]." Symantec shipped Q&A in 1985.

Q&A has a built-in vocabulary of not quite 600 words, including articles like "a" and prepositions like "in." But the user can train the program to understand other words. Say you want to list the salaries for all women employees. When the query is made, the program will tell the user that it does not understand "women," at which point the user says they are synonymous with "females," a word in its standard vocabulary. The program can then process the query. Q&A can accept queries up to about 40 words long and it can accurately interpret hundreds of variations of the same question.

All this is much less forbidding than the rigorous formality of the

Photos by Jamie Tanaka

Symantec founder Gary Hendrix (left) and boss Gordon Eubanks
"Mr. Crazy met Mr. Practical."

most popular database language, Ashton-Tate's dBase. In dBase, ask a question such as "List fields employee, hobby for sex = 'M'," with a slight spelling or punctuation error and the query is kicked back with a rude beep. Hendrix is aware that Q&A only scratches the surface of what the world wants in user friendliness. His current project is speech recognition.

Today Hendrix is the only original member left of his natural language group. The rest have scattered, some returning to academia. "They found that this wasn't the kind of life they wanted to lead," he explains. "There are compromises that have to be made to make technology that works."

Random Access

Commentary by Esther Dyson

PC PERESTROIKA

In their professional if not in their personal lives, personal computer users are much like the liberated peoples of Central Europe. So said Mike Maples, vice president of applications at Microsoft, in the course of a recent panel discussion on PC software. The analogy turns on this point: Computer users are free of central authority at last, able to pick their tools and manipulate their own data. Yes, they may get data from a management information systems department, but they can do what they like with them.

"So what do you use to do your accounting, your manufacturing?" asked mainframe veteran John Landry. Landry was formerly a top executive at Cullinet, the once-powerful vendor of software for IBM mainframes that has since been absorbed by Computer Associates. Landry is now building a tool, and a company called Agility Systems, to connect mainframes, PCs and databases—and people—through electronic mail.

"Heck, I don't know," drawled Maples, exaggerating a bit for effect. "Do you know what kind of turbine generates your electricity? They're a service. They don't control us anymore."

But no freedom is absolute. "You can't just let your users go running around without controls, without standards," protested third panel member Harry Reinstein, an ex-IBMer who founded Aion Corp. to build software development tools that run on both PCs and mainframes. "They'll corrupt the data; they'll generate errors. If everyone's going to produce his own forecast based on last month's sales, they should at least have a common

number for last month's sales."

Let's take the analogy a little further. If you read the news carefully, you'll see that the initial euphoria in Central Europe is gone. The transition from central control to a free market isn't easy. Same thing here: The old order is dead, but birth of the new order is painful.

What's the problem? For starters, you can't have a really free market without a hard currency—a common medium of exchange that everyone can rely on, some way to convert apples into the right number of oranges.

Data processing, too, needs a hard currency to function in a liberated environment. That medium of exchange is interoperability, meaning: rules enabling a network of computers to talk to one another, formats for the transfer of data among the computers and a common language for certain basic commands. Until you have those, you can't give up central control without creating chaos, black markets, corruption, inefficiencies, misallocation.

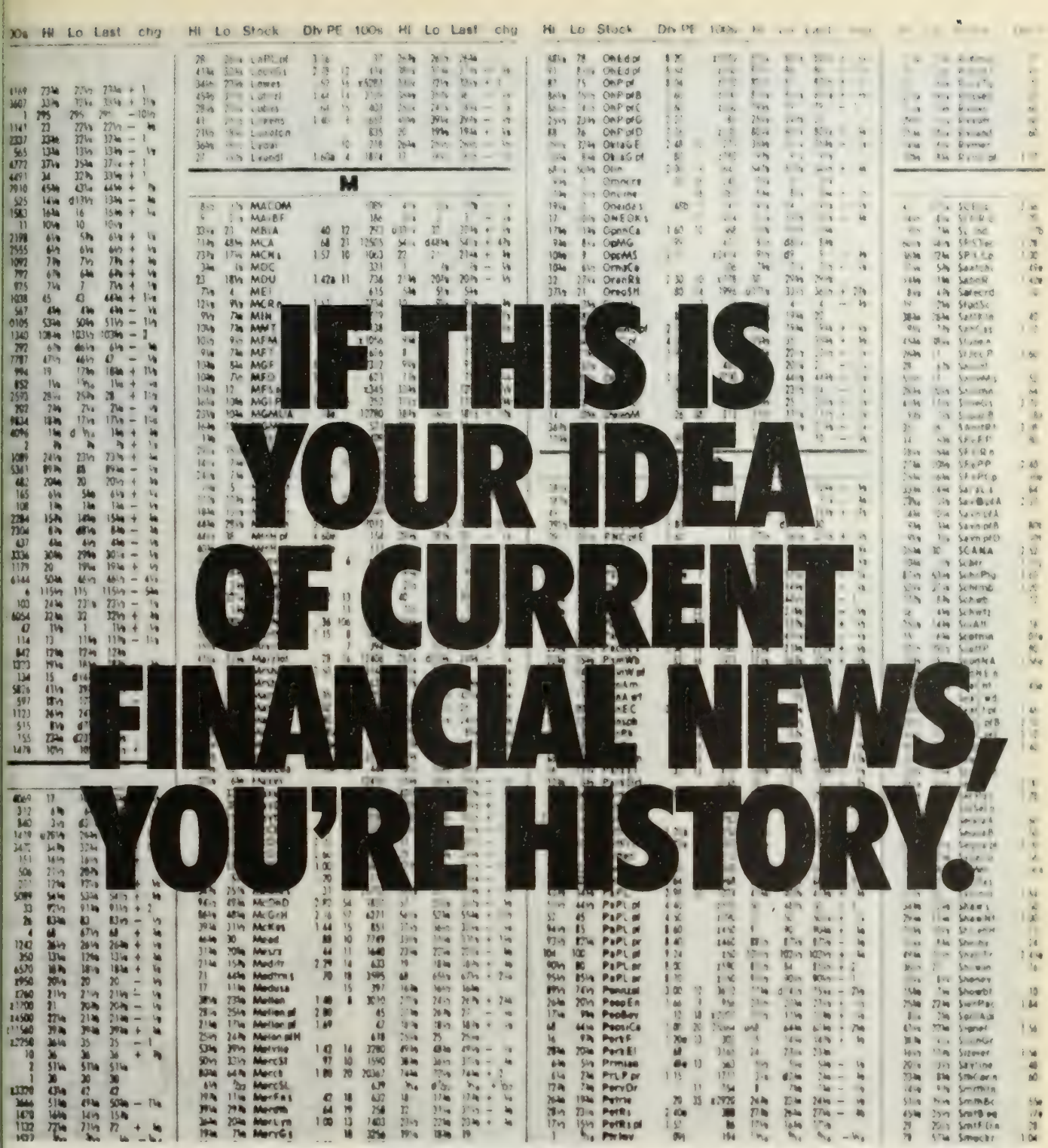
In data processing a medium of exchange will allow an Excel spreadsheet user to trade data with a 1-2-3 user or a mainframe; it will let a Sun user compare schedules with a Macintosh user; it will let an IBMer send mail to a Unix hacker (if they have anything to communicate about). There are a lot of moves in this direction, among them Structured Query Language, a kind of lingua franca for drawing information from a database; Microsoft's Dynamic Data Exchange, for various kinds of data transfer; and certain standards for networking. But there are too many of the data currencies, just as there are too many different forints and crowns and zlotys and rubles, and they're not all freely convertible.

This is the perennial battle between centrally controlled data processing, where everything revolves around the mainframe, and personal computing, where the users take control. But in fact it's more than a technology argument, or even an economic one. As personal computing evolves, we will have to deal not just with file formats and networking protocols but with business issues, like accounting standards and bonus and interest calculations.

Even in a free market, you need rules. Likewise, as data processing moves from back rooms onto business people's desks and computers become easier to use, the issue is not just control of technology standards but the definition of business procedures and policies, reporting standards and business practices. How, for example, do you determine which executives are permitted to read (or alter) which files? Computers now assign credit ratings, generate customer letters, monitor insurance payouts, calculate quotas and the like. So who gets to program those computers? Who sets the policies they carry out?

In Central Europe and in data processing, the advent of freedom carries big challenges. A free market and a free society can't be imposed by legislation; they must be built from the ground up on a consistent foundation. Meanwhile, don't disband those standards committees and MIS departments; just teach their members how to use PCs. ■

Esther Dyson is editor and publisher of the newsletter Release 1.0.



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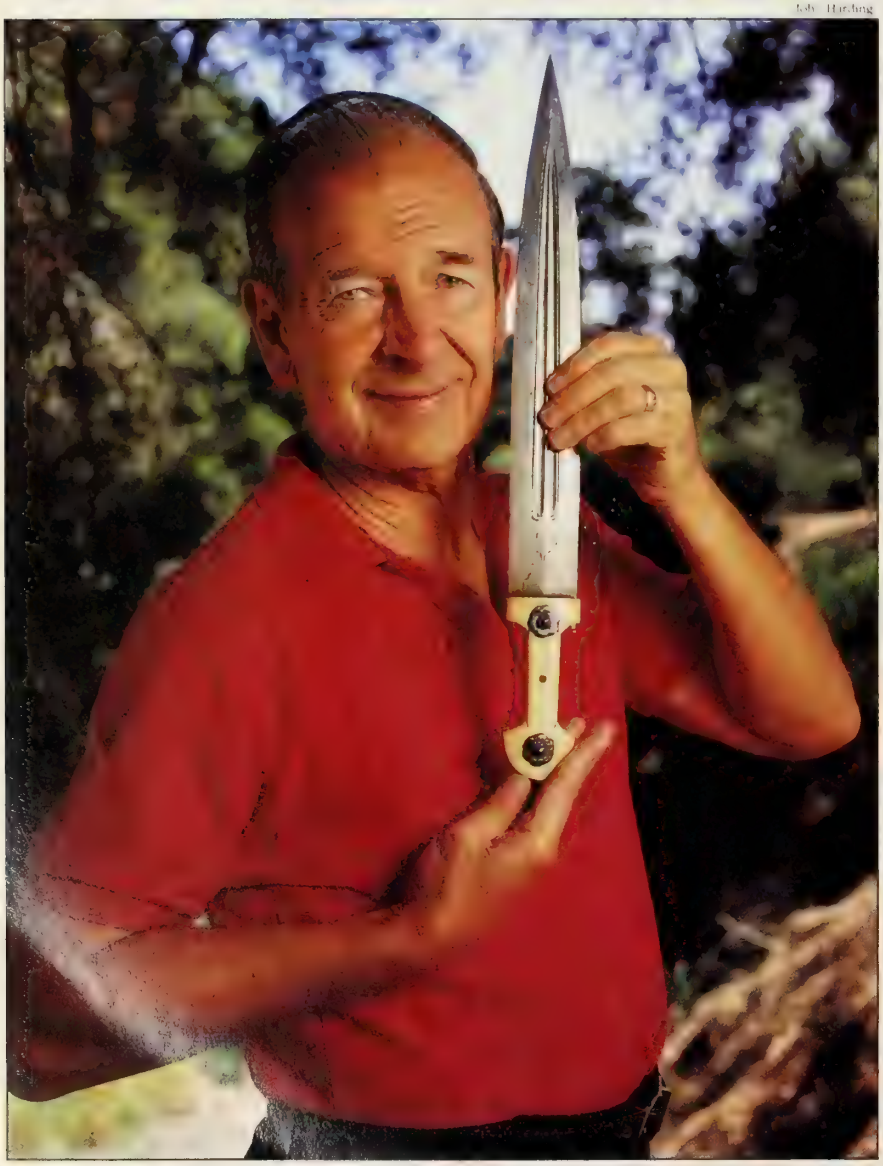
Science & Technology

Edited by Gary Slutsker

With budget cuts looming, government defense labs are trying to commercialize their work. It won't be easy. Witness Oleg Sherby's work in high-performance steels.

Swords into plowshares

Lily Harding



Stanford's Professor Oleg Sherby with a Damascus steel sword
The blacksmith's art is rediscovered after millennia.

By James R. Norman

STANFORD METALLURGY Professor Oleg Sherby came upon a remarkable discovery one day while he was developing new high-performance steel for the government. He discovered that he could make a normally brittle high-carbon steel casting behave like taffy at about half the metal's normal melting point. When cooled, it had the added strength of forged steel. With this "superplastic" steel, he reckoned, it might be possible to mold even very complex gears and other high-stress parts in a single step and eliminate the expensive machining and joining commonly needed with very hard forged steel. That could save U.S. industry billions of dollars a year.

That discovery by Sherby took place 16 years ago. Today, having knocked on hundreds of doors and published scores of papers in a frustrating effort to get his invention accepted, Sherby is 65 and semiretired. His story illustrates the difficulties of taking technology from the research lab and transferring it to commercial markets. With defense cuts looming, government research laboratories are struggling to stay active by diversifying into industrial research. It won't be an easy task.

Sherby's invention recently got a big boost from the Department of Energy, which has funded steel plasticity research at the Lawrence Livermore National Laboratory, a participant in Star Wars research. Livermore likes Sherby's superplastic steel and has fashioned a consortium of three industrial partners to try to commercialize the idea. Cargill Inc.'s North Star Steel, forging maker Ladish Co. and Caterpillar Inc. have formed an unusual, vertically integrated partnership of basic material supplier, partsmaker and end user aimed at leaping the gap between lab bench and commercial production in a single jump.

With a number of foreign steel companies hot on the trail, it's about time attention was paid to this technology, declares Sherby, the Shanghai-born son of Russian refugees. "My hope is we'll not walk," he says. "We've got to run."

Over the years, Sherby promoted his idea, but there were no takers. Manufacturers were unwilling to gamble on a new material that wasn't being mass-produced, and steel companies were afraid to produce an alloy with no established market. Laments Sherby, "It was a chicken or egg problem, and a lot of Not-Invented-Here

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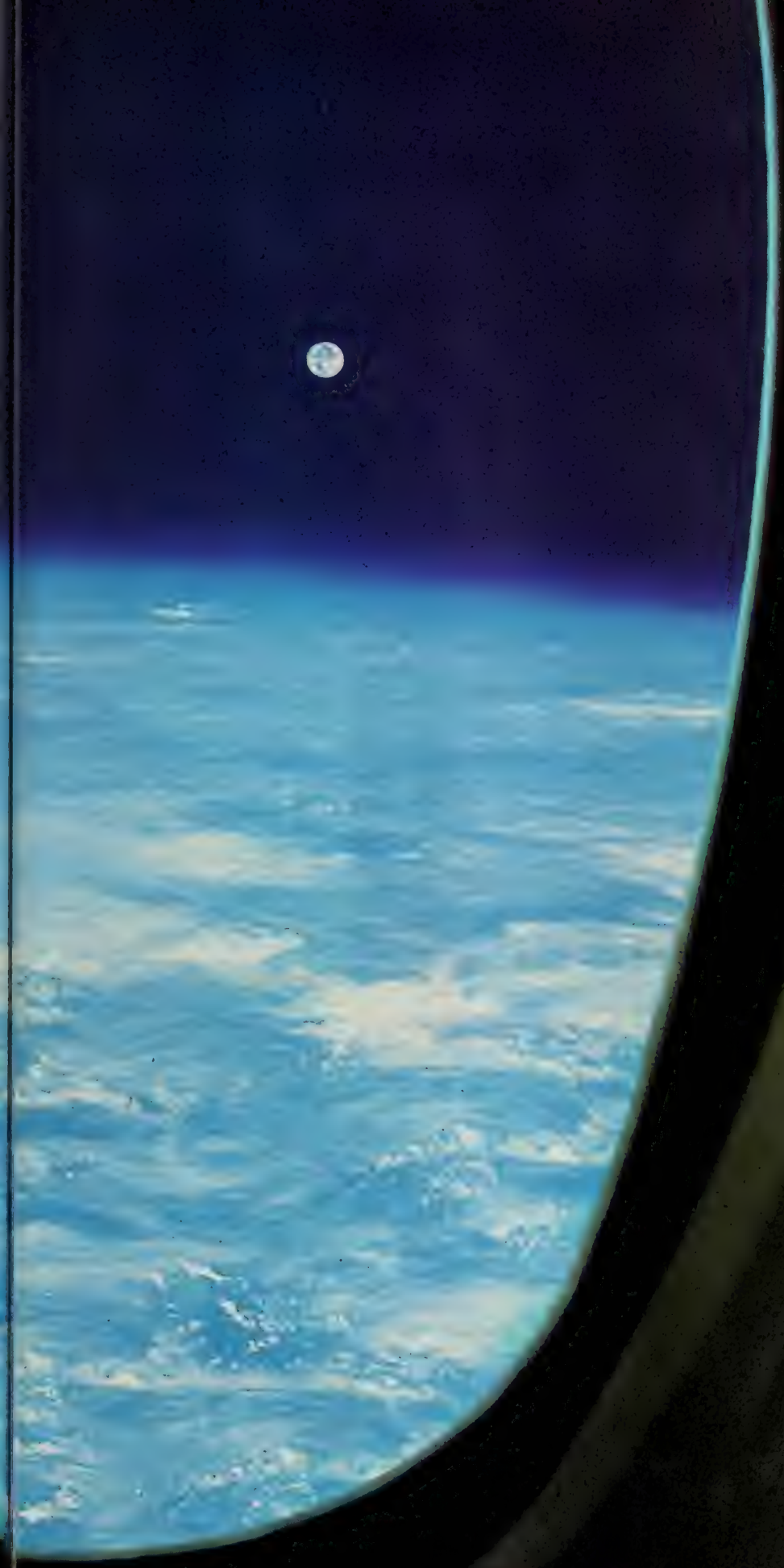

GE Aircraft Engines

Keeping the Promise

syndrome."

Then, in 1987, a longtime friend of Sherby's at Livermore, Alfred Goldberg, happened across a Department of Energy notice offering to fund government labs that could help the beleaguered steel industry. That was music to the ears of metals researcher Goldberg, whose own superplastic metals project was winding down. Sherby had scrounged around to get the Army to keep funding his work at Stanford, but by 1987 he was planning to retire to take care of his ailing wife, Juanita. Now widowed, he is back working part time as a consultant to Livermore.

The Energy grant hinged on getting private industry to foot 30% of the $5 million projected cost of the program. The government would get 25% of any net profits until it got back up to 150% of its funding. The carrot for the private partners was that private companies would get proprietary ownership of government-laboratory research. The partners get royalty-free licenses to any new technology as long as it is freely licensed (at a profit) to other U.S. steel companies. DOE has also agreed to keep secret any commercially useful findings, as it has done with its partnerships in superconductor research. Otherwise the data could be retrieved under the Freedom of Information Act. Previously, such research was either held in supersecrecy or made available to the public on an equal basis, so no one competitor could get a leg up.

Livermore, besides doing the research work, could earn royalties through a holding company run by its overseer, the University of California at Berkeley. Sherby and Stanford jointly hold four patents on the composition and processing and are negotiating to license their patents to the consortium.

The patents deal mainly with the unusual microscopic grain structure of Sherby's steel and how to achieve it. The fine-grain structure of steel determines its strengths and plasticity: its hardness, or resistance to wear; and its toughness, or resistance to being bent or broken.

The central dilemma of metallurgy is how to get a metal that is very hard, yet still tough. Ultrahigh-carbon steel—that is, iron mixed with more than 1% carbon—is very hard, but it can also be brittle. Heat-treating and forging steel can add strength by altering its grain structure. But there is always some trade-off of hardness against toughness.

Garden-variety high-carbon steel won't easily stretch to even half-again its length. But Sherby and his colleagues came up with a way to make this alloy behave like molasses and stretch to ten times its original length. By rolling and forging this inexpensive steel at intermediate temperatures of about 800 degrees centigrade, they were able to break grains of iron and carbide down from 200 microns in diameter, roughly the width of a human hair, to just 1 or 2 microns. That allowed the steel to flow like plastic or glass when heated, without actually melting. The trick is not to reheat it too much, which causes the carbide grains to reform.

Alan Levenson

Superplastic titanium at Murdock Inc.
Aerospace parts the clever way.

In the process, Sherby and a metallurgist colleague, Jeffrey Wadsworth, stumbled onto the long-lost recipe for the legendary Damascus steel used in the swords of ancient warriors like Alexander the Great. Steelmakers have long been mystified over how primitive forgers made this ultrahigh-carbon steel so tough and able to hold an edge so well—not to mention the damask pattern on its surface.

The ramifications of Sherby's discovery were immense. It meant complex gears and other hard-steel parts that require extensive machining might now be molded in a single step. That's no small matter when you consider the hundreds of thousands of workers engaged in various machining and joining operations. That appealed to General Motors Corp., which tested the steel off and on over a period of seven years in the 1980s. However, GM wanted to see the metal commercially available before committing to design the more complex parts that would make the hot forming process economical.

Likewise, several steel companies, including Bethlehem, J&L and Republic, were looking into Sherby's steel before the industry went into a tailspin in 1982. That led to deep cuts in R&D spending. Even the Army, which had funded much of Sherby's research, turned up its nose when Cargill's North Star operation, in the mid-1980s, offered to make a sample batch of 120 tons.

Now, of course, North Star is one of Sherby's collaborators. "What excites me about this consortium is its vertical integration," says Gordon Geiger, North Star executive vice president for technology. The trick is not just to remake existing parts with the new metal, but to rethink entire manufacturing processes. To be commercial, whole assemblies need to be redesigned into one-piece parts to save labor and machining costs.

Ironically, the concept of hot superplastic metal-forming has forged ahead rapidly in other kinds of hard, fine-grain metals like nickel and titanium—mainly for aerospace parts. Superplastic forming is widely used now with aluminum and zinc compounds as well. Even low-carbon stainless steel is being processed with superplastic technology by a British subsidiary of Canada's Inco Ltd. for making complex aircraft parts without machining or welding. The new superplastic metals aren't going only into aircraft. Japan's Nippon Yakin, in partnership with Compton, Calif.-based aerospace partsmaker Murdock Inc., is developing superplastic stainless steel for high-status Japanese residential ornaments. Now Japan's Kawasaki Steel is researching superplasticity and has produced steel sheet in the lab that has similar properties to Sherby's steel.

Sherby may never get rich off the lost secrets of the Damascus blacksmiths. But his invention stands a good chance of substantially improving the way American firms manufacture steel parts. ■

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Commentary by Michael Gianturco

THE RALLY'S FOR REAL

Recently there has been a surge in a broad range of science and technology stocks. Now investors are hearing two extremes of opinion: Either 1) buy in quick—it's a runaway rally; or 2) sell out quick and go home—it's a bubble.

Extreme views of the market are rarely correct. To find out where we really are, it sometimes helps to look over a few numbers.

The table shows the 20 fastest-climbing science and technology stocks of the past six weeks of the current rally. The stocks are ranked according to their relative strength. The data were downloaded with a personal computer from the database of Telescan in Houston.

Relative strength is a value that can be defined in several ways (relative to the broad market, relative to the group, etc.). The term is used here in its simplest sense—as strength relative to the stock's own past price. The number is calculated by dividing the current price of the stock by its price six weeks ago. The result is expressed as a percentage. For example, Fibronics International, which tops the ranking with a relative strength of 171, has a current price that is 171% of its price just six week ago. A doubling in price would produce a relative strength number of 200%.

The first thing the table tells us: The rally is technologically diverse. That is, all kinds of technology companies are participating.

In studies of this type conducted over the past year or so we have often seen some single group grow "hot" and then cool off, only to be supplanted by another. The winter rally in semiconductors, for example, went forward to the exclusion of most other technology stocks. It gave way to focused strength in software stocks.

But this rally is different. The table shows a broad mix of groups, including data communications and

networking (Fibronics, 3Com); telecommunications (DSC, ECI Telecom); medical technology (Bio Medicus, Scimed); environmental sciences (International Technology, Emcon); integrated chemicals (Georgia Gulf); semiconductors (Silicon Valley Group, Exar, Standard Microsystems).

In short, the table does not suggest a pattern of specialized leadership arising from isolated successes in niche markets. Instead, the science and technology stocks appear basically strong across the board.

There are a couple of interesting asides. The first is in the semiconductor area. Some stocks on our list of leaders are companies in the semiconductor equipment and supply field. Such stocks tend to be early performers—they foreshadow strength in the semiconductor manufacturing industry as a whole. Their appearance on this list no doubt reflects the recent upturn in the industry's closely watched book-to-bill ratio. This is a bullish signal for the entire computer technology group.

Second, note that one of the strongest software stocks in the top ten, DST Systems, specifically sells software for the management of mutual funds—a rather positive commentary on the general tone of the market.

But did the rally come too far too fast? Evidently not. See the column in the table labeled "Relative P/E."

What this shows is the current P/E as a position in the total range of historical P/E values for the given stock. A relative-P/E number can fall anywhere between 1 and 100. A relative P/E of 1 means that the stock's price/earnings ratio is right at the historic low. A relative P/E of 100 says the stock's P/E is on top of its historic high.

In short, the relative P/E gives us an idea of how far the stock has come—and how far it might have yet to go. For Fibronics International, with its relative P/E of 47, a trader might note that so far, this stock's P/E has come up only halfway to its historic high. BGS Systems, with a relative P/E of 2.7, has barely lifted off the peg of its historic low.

The median value for a large set of top-performing science and technology stocks is just 21. This suggests that to this point, the rally has used up only 21% of its reasonable "travel" and has a very comfortable 79% yet to go. I'm not talking about just the stocks listed in this table but the whole range of technology and pharmaceutical stocks, from IBM on down.

No numbers can exactly specify what the market will do. But the intuitive feel is clearly bullish for technology stocks. To me, the rally looks real and likely to continue. ■

The rally's leaders

Company	Relative strength	Relative P/E
Fibronics Intl	171%	47.0%
Silicon Valley	168	17.0
ECI Telecom, Israel	167	59.0
BGS Systems Inc	164	2.7
Bio Medicus	150	14.0
DST Systems	146	73.0
Exar Corp	143	11.0
Intl Tech	142	8.9
Georgia Gulf	140	33.0
Emcon Assoc	137	82.0
XL Datacomp	135	13.0
3Com	134	17.0
Symbol Techs	133	8.8
Vishay Intertech	133	25.0
Standard Microsys	132	0.5
Tandon	131	3.5
Quantum Corp	130	27.0
DSC Comms	129	2.8
Scimed Life Sys	127	6.4
Pansophic Sys	125	7.9

Michael Gianturco is president of The Princeton Portfolios, a New Jersey asset management firm, and edits The Top Ten, *its weekly computerized newsletter on investments in science and technology.*

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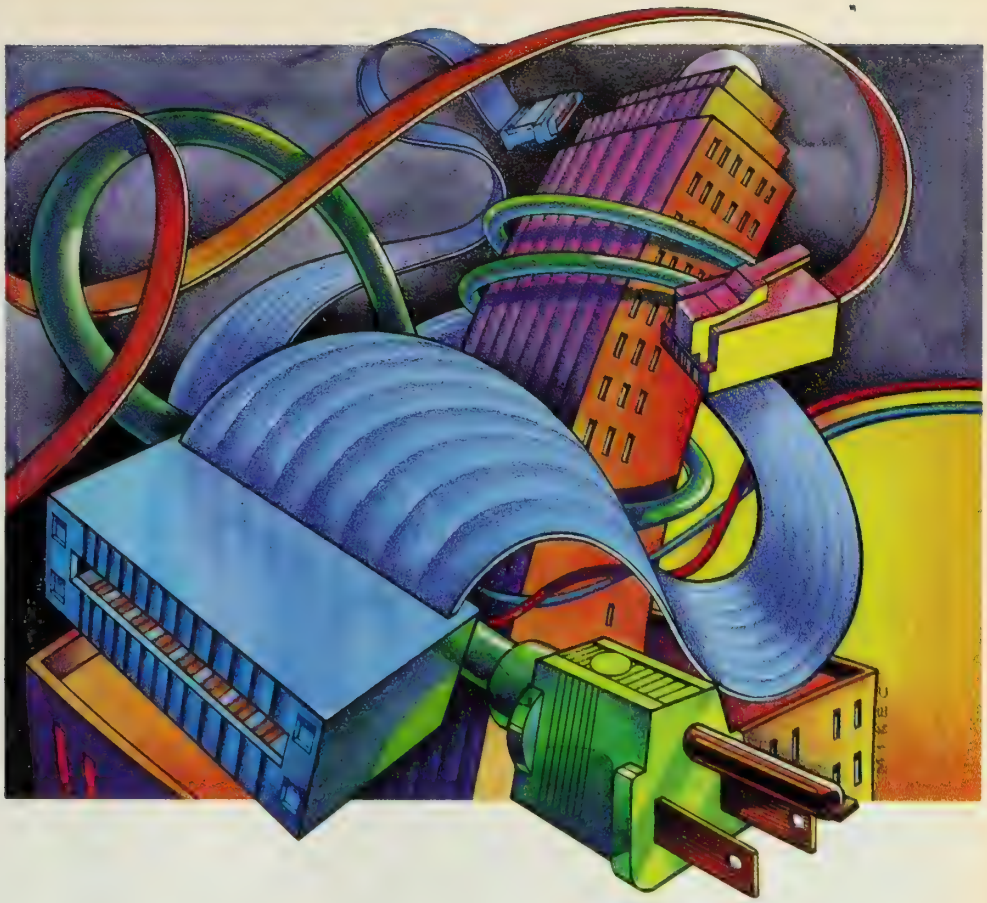

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Personal Affairs

Edited by William G. Flanagan

Are wooden yachts dead? Not as long as there are trees to hull them, hands to craft them and money to pay for them.

And all the boards did shrink

Stephen Rubicam

Signe's rear cockpit, with gold-plated binnacle
She glories in wood.

By Edward H. Baker

AT HIGH TIDE on June 18, Arthur Wellman's wife Mary broke a bottle of champagne on the bow of *Signe*, their brand-new, 100-foot wooden sailboat. The ketch, four years in the making, had just been completed by aptly named Renaissance Yachts, of Thomaston, Me. As *Signe* slid smoothly down the ways into the waters of Casco Bay, Me., Wellman turned to his wife and said: "We have given birth to a baby—a magnificent baby."

For sailors like Wellman, only a wooden boat, new or used, will do. Neither fiberglass nor aluminum can match the feel, the history or the indisputable beauty of wood.

While the making of wooden yachts almost ceased when fiberglass made its big splash in the late 1950s and early 1960s, many wooden-hulled sailing vessels are still stubbornly afloat. Some yachts that were built before the turn of the century still sail regularly. And there remains a handful of yards in New England and the Pacific Northwest where you can commission a customized luxury wooden yacht.

The cost? Wellman, the 66-year-old former chairman of Wellman, Inc., a plastics recycling company he founded, spent well over $4 million on *Signe*. A tidy sum, but hardly more than, say, a similar-size Swan with a conventional fiberglass hull. Nautor, which makes the highly prized Swan yachts in Finland, will charge you about $4 million for an 86-footer with a fiberglass hull. Then add another 25% to 30% for a fully customized interior and state-of-the-art sails and electronics.

Signe is truly something special, running 114 feet from stern to bowsprit. She draws 22 feet with the centerboard down and carries an enormous 5,000 square feet of sail—enough to cover more than two tennis courts. She has three luxurious staterooms plus additional quarters for a crew of six. And she glories in wood. Her hull is laminated cedar and mahogany. Exotic woods such as Hawaiian koa, burled olive and bleached bird's-eye maple are used throughout. And, as an added touch, the mahogany transom was carved by a master violin maker.

She also incorporates the latest in wood technology. Her hull was cold-molded, a high-tech process that combines the virtues of wood with the durability of modern epoxy resins. This helps bring the cost of maintaining a wooden hull into line with the

Ted Kelley

The 53-foot Neith under sail in Narragansett Bay off Newport, R.I.
Applause at the sight of her.

low-maintenance attributes of fiberglass and aluminum.

Thomaston, Me.'s Renaissance Yachts is currently the top-of-the-line builder of cold-molded wooden yachts worldwide. Its owner, 55-year-old Phil Long, has owned boats since he was in his early 20s. An early large cold-molded yacht, a 92-foot ketch named *Whitefin,* was built in a temporary shed erected over an unused tennis court, and was launched in 1978. Altogether Long has built five such yachts, all but one of them over 90 feet, and all of them designed by the well-known Bruce King.

Currently under construction is a 91-foot sloop being built for Jan Stenbeck of Stockholm and New York City. His boat will cost an estimated $3 million.

For sailors whose budgets are slimmer, there are always used boats, of course. While the cost and trouble of maintaining wooden hulls are legendary, many magnificent old yachts can be purchased for only a fraction of what a new boat runs. And many old craft have fascinating histories and provenances.

Take *Blitzen,* a 56-foot sloop recently bought by Chip Orcutt, 29, a Boston real estate consultant. She was designed by Sparkman & Stephens, the famous New York naval architectural firm that designed all of the America's Cup defenders from the 1930s right up until the 1980s.

Blitzen was built 52 years ago at the highly regarded Nevins boatyard in City Island, N.Y. for R.J. Reynolds, the tobacco magnate. He raced her successfully in many major ocean races, including the Miami-Nassau, the Havana-Key West and the Transpac (San Francisco-Hawaii) competitions in 1939. After Reynolds sold her in 1940, she continued racing successfully right up to the 1960s.

Sarah Putnam

The 56-foot sloop Blitzen
Original owner: R.J. Reynolds.

But don't think that *Blitzen* is one of those stripped-out racing machines; instead, think of the men's bar at the Century Club and you'll get a good idea of what she looks like below. Says Ed Koskella, who owns Nantucket Yachts, a brokerage on the island of Nantucket, "*Blitzen*'s history adds a significant amount to its value." Yet her recent purchase price was $160,000. Even with maintenance and upkeep bills, which owner Orcutt estimates at between $20,000 and $30,000 a year, boats like *Blitzen* are relative bargains.

An equally striking example is *Neith,* a 53-footer designed and built by Nathaniel Herreshoff in 1907. The sloop is currently owned by Jack Brown, an independent oil producer from Midland, Tex. Brown bought the classic in 1983 for $60,000 at the suggestion of his son Van, who then oversaw the boat's restoration, which included all-new sails and interior. All work was done to the original 1907 specifications—and cost another

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Blitzen off Cape Neddick lighthouse north of York Harbor, Me.
Winner of several ocean races, including the Miami-Nassau and the Transpac.

Photographs by Michael Carroll

Inside Blitzen's refurbished galley
As comfortable as the men's bar at the Century Club.

$450,000. Yet the boat is now completely up to date, including state-of-the-art electronics cleverly hidden behind the beveled-mirror doors of the liquor cabinet. Brown still gets a kick out of the reaction to *Neith* when he sails her into unfamiliar ports; more than once old harbor hands have broken into applause at the sight of her.

Since completing the refurbishing, Brown has had offers of up to $750,000 for the boat. Her annual maintenance bill runs about $25,000 to $30,000.

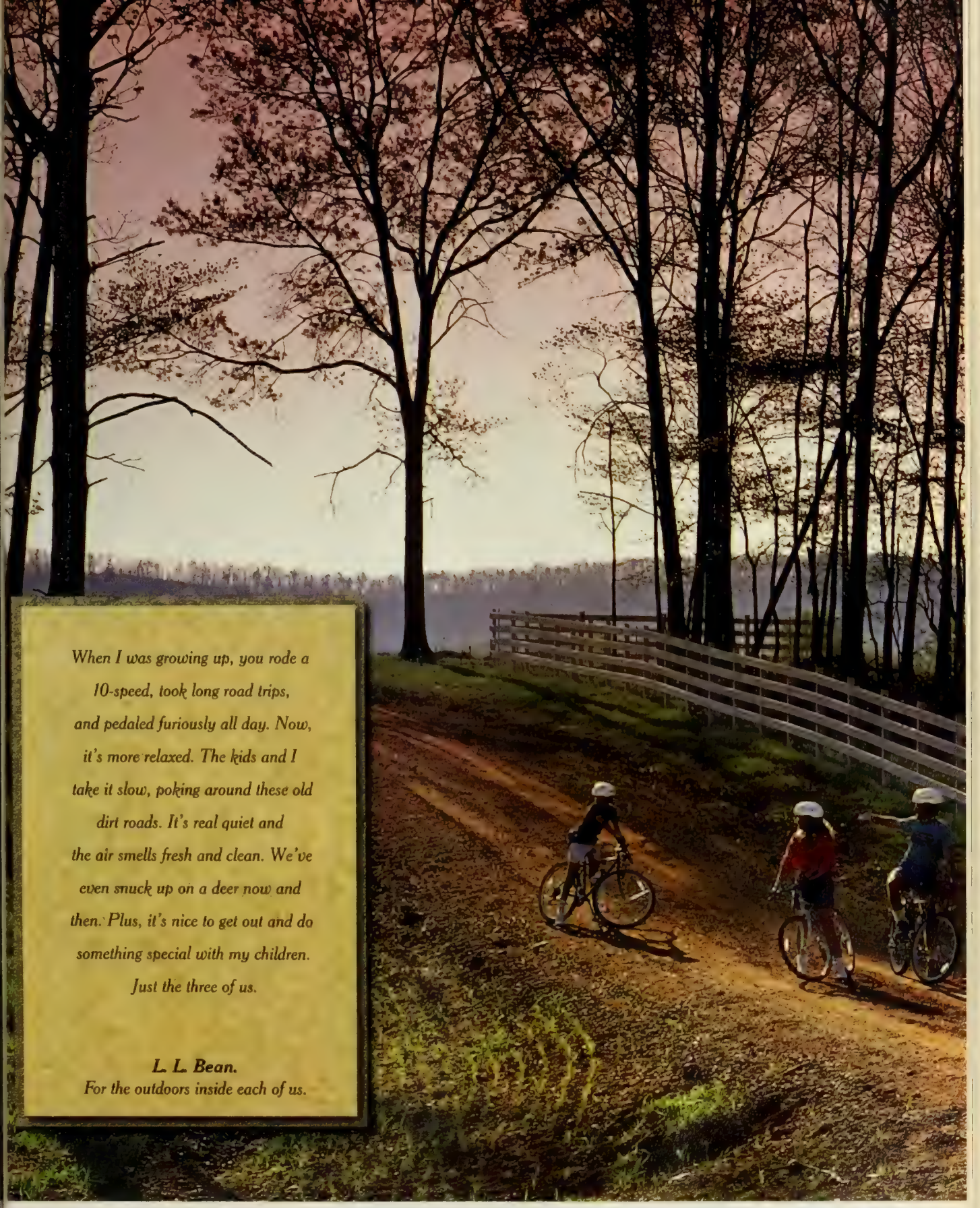
Consider, on a somewhat smaller scale, the Concordia 39, a class of yawls first built in 1938 by the Concordia Co. in South Dartmouth, Mass. Between 1938 and 1966, about 103 were built, the last 99 by the Abeking & Rasmussen yard in Lemwerder, West Germany between 1950 and 1966. The durability of these boats is remarkable. Says Gerald Smith, general manager of the current Concordia yard, which still builds and maintains wooden yachts, "Every single one is still alive in one form or another." In September of 1988 the class celebrated its 50th anniversary with a regatta at South Dartmouth, at which there were 65 Concordias on display.

The popularity of these yachts stems from their simplicity and practicality combined with their speed and beauty. *Babe*, a Concordia 39 owned by Arnie Gay, won the Newport-Bermuda race as recently as 1978; the boat was then 23 years old.

George Henschel, an architect who practices in Bedford, N.Y., also owns a Concordia 39, called *Whisper*. Built in 1957, she was acquired by Henschel in 1986 for only $30,000. Today, she would fetch perhaps $60,000. Maintenance is only about $2,000 to $3,000 a year, largely because Henschel, like many a wooden-boat owner, likes to do much of the work himself.

Still, comparable Concordias have sold for as much as $80,000, and one recently sold for a high of $95,000. That estimate is confirmed by Koskella: "All the Concordias have seen at least a 50% increase in value in the last five years."

If you want to know more about wooden boats, pick up *Wooden Boat* magazine, the industry bible (P.O. Box 78, Naskeag Road, Brooklin, Me. 04616). Or go to Newport, R.I. this Labor Day weekend for the Classic Yacht Regatta. You'll get a good look at the variety of wooden boats still on the water, and meet some of the devotees who keep them afloat.



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Collectors

Like pet owners who commission portraits of their cats and dogs, car collectors are having their favorite cars done in oil, bronze, pewter and even wool and acrylic.

Car art

Photographs by Michael Grecco/Outline

Oil paintings of a '50 Mercury, a '38 Bentley Grille, an '86 Harley, a '57 Chevy
"I've never understood pictures of water, or doilies."

Noel Blanc at home with cars and car art
On the wall, a '59 Caddy in oil.

By Christie Brown

A HANDFUL of entrepreneurial West Coast artists are on the fast track with a new trend: car art. Their pictures, tapestries and sculptures are just the thing for the auto collector who has everything.

Take Noel Blanc (son of the late Mel Blanc, "the man of a thousand voices," including that of Bugs Bunny). Blanc's car collection, consisting of 14 sports cars, including rare Ferraris, Thunderbirds and Corvettes, is worth about $7 million. Blanc takes his cars seriously. Most of them he keeps parked inside his Beverly Hills home. And they rate the best rooms in the house—including the one fronting the pool.

But about five years ago Blanc, a bachelor, ran out of parking space in the house. So he started collecting paintings, tapestries and sculptures of cars he coveted, but for which he lacked the room. His car art collection now numbers 30 pieces.

"My paintings are all cars I don't own," he says. "Yet."

Otis Chandler, former chairman of the Times Mirror Co. and perhaps the best-known car collector in the country, likewise turned to car art ten years ago, as his own two-story auto museum grew crowded. Now over 100 paintings, prints, tapestries, old posters and sculptures of cars decorate his private museum in Oxnard, Calif. The museum showcases 85 of Chandler's cars, reportedly worth $20 million.

Almost all the best car artists are from the West Coast, where the automobile is a cultural icon. Well-known car artists include the late Peter Helck, Harold Cleworth and Ernest Wregge (oils); Stanley Wanlass (sculpture); and Keith Collins (tapestries). While their works garner little respect from serious art critics, car buffs love them. In fact, Harold Cleworth (dubbed "painter laureate of the automobile" by *Autoweek* magazine) has just painted six hubcaps of classic cars for Mikasa, Inc., the dinnerware maker. Hubcap dinner plates will be in stores this fall. Tacky? It depends on how much you love cars. Shrugs collector Blanc, "I've never understood pictures of water, or doilies."

Ken Eberts, head of the Automotive Fine Arts Society, sums up car art this way: "We have everything that the Old Masters have—culture, romance. And we're cheaper."

Cheaper, but not cheap. Car paintings by Peter Helck have fetched up to $150,000. Prints by Helck, however, can still be bought for about $300 at

Photographs by Ben Balagot

In his private car museum, Otis Chandler with his 1934 Packard 12
The hanging portrait is a tapestry by Keith Collins.

can still be bought for about $300 at galleries around the country that cater to car art collectors. (They include L'Art et L'Automobile gallery in New York, the Automotive Emporium in Dallas and the Gallery Automania in Rochester, Mich.)

Most Los Angeles collectors depend on word of mouth and deal directly with the artists. For example, car sculptor Stanley Wanlass has over 100 commissions every year, with prices ranging up to $65,000 apiece.

Both Blanc and Chandler do more than collect car art, however. They are also patrons. And in Blanc's case, a partner. Blanc, who owns his own advertising firm called Blanc Communications, Inc., which worked on the "Things go better with Coke" campaign, has had a business agreement with Ernest Wrege since 1985. Blanc pays Wrege an annual retainer (he won't say how much) to paint his favorite cars from photographs that Blanc takes himself.

Next spring Blanc plans to market serigraphs of those paintings in limited editions of about 500. They will be priced at about $1,000 each. Eventually the paintings themselves will be sold, for about $60,000 apiece. The pair plan to split all the proceeds 50-50, minus what Blanc has already advanced Wrege. Properly marketed, Blanc thinks Wrege will have the mass appeal of noted sports artist Leroy Neiman.

One of Chandler's favorite car artists is Keith Collins, who specializes in tapestries. Chandler has commissioned him to make huge wool and acrylic carpets featuring some of his favorite cars, including a 1931 Duesenberg, a 1933 Chicago World's Fair Packard sports sedan, a green 1934 Packard 12, a blue and orange 1969 Porsche 917K and a gold 1969 Dodge Daytona Hemi.

Portraits in carpet? "They blow people away," grins Chandler. Size could have something to do with it. Measuring 9 feet by 20 feet and weighing about 200 pounds, they are hung in Chandler's museum next to the cars they depict. Collins charges up to $35,000 per portrait. But Chandler says he got a deal for getting in on the ground floor. "Collins is just basically an undiscovered genius," states Chandler. "I think a Collins will be hanging in every major car museum."

The Japanese are already paying attention. Last year Collins sold five tapestries to Japanese real estate developer Toshiho Matsuda, who has several private car museums. Three tapestries depict Ferraris, one the Ferrari logo, and one the Matsuda logo.

The biggest single showing of car art yet will take place at the *Concours d'Elégance* auto show in Pebble Beach on Aug. 15, sponsored by the Automotive Fine Arts Society. Works from about 25 member artists will be on display, and for sale.

Sotheby's isn't missing this market. It is now holding a private sale of over 500 items of car art. The collection, which includes prints, old posters and car ornaments, is expected to bring in over $3 million.

"New York to Paris, 1908" sculpture by Stanley Wanlass
Commissioned works for up to $65,000.

Faces
Behind the Figures

Edited by Jason Zweig

Turbulence ahead

Max Aguilera-Hellweg Omni

TWA Chairman Carl Icahn
Suddenly, a $350 million debt problem.

Lalo Lozza Outline

Richard Sallis of Playmates toys
Life after Turtlemania.

Carl Icahn and TWA are in for some rough flying. At the end of last month Trans World Airlines, Inc. ran afoul of net-worth covenants on nearly $750 million of its debt. That means Icahn will have to redeem 10% of that debt every six months for the foreseeable future. Over the next two years that will require some $250 million of extra cash.

The funds aren't likely to come from the airline's business, which has been posting losses lately.

Another ominous sign for TWA: Before this year is out, about $550 million of its other junk bonds, which have been paying interest in kind, must begin paying a 12% coupon in hard cash. That will suck nearly $100 million more out of the airline by the end of next year.

Icahn has plenty of cash to work with. Since taking TWA private in 1988 with some $1.3 billion in debt, Icahn has run it less as an operating company than as a vault in which to store cash and securities—perhaps $1.6 billion—largely generated from his shrewd trading in Texaco and other stocks.

Protecting that cash inside TWA is getting harder. TWA's pilots grumble that they will give Icahn no further concessions. The airline's domestic market share has stagnated at 6%, and its aging fleet badly needs updating. Junk bond analyst Raymond Neidl of Dillon, Read & Co. questions whether TWA can possibly survive for much more than a few years, even if Icahn continues to downsize by selling off the airline's jets.

Icahn declines to discuss his plans. But in May *Airline Financial News*, a respected trade newsletter, reported that Icahn discussed a possible sale of TWA to America West, the Phoenix-based airline. Later Icahn was said to be willing to hand his airline—stripped of its cash hoard—over to anyone who would agree to assume TWA's $1.6 billion in debt.

So far, no takers.

Risk Tracy

Will American kids put down their Ninja Turtle toys for Dick Tracy? That question is much on the mind of Richard Sallis these days.

Sallis, 46, is senior vice president of the U.S. division of Hong Kong's Playmates Holdings Ltd., the company that began making Teenage Mutant Ninja Turtle dolls three years ago and has coined money since the Turtles' film was released in March. "We have not reached the peak yet," says Sallis,

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Faces
Behind the Figures

who bought toy rights to the Turtles in 1987 for $200,000, "but we're not counting on the Turtles to carry the company."

Next? Dick Tracy action figures and accessories licensed by the Walt Disney Co. and made by Playmates. After a month in the stores, the Tracy toys are the second-best-selling action figure line in the U.S., behind the Turtles. But if box office gross is any indication, the Tracy toys may have trouble catching the Turtles. In its first weekend, the Dick Tracy movie did about $21 million in ticket sales, as against $25 million for the Turtles.

Hedging his bets, Sallis has some Turtle clones in the wings: action figures dubbed Barnyard Commandos and the Toxic Crusader. Last year Turtle toys grossed $100 million—more than two-thirds of Playmates' $147 million in sales. Since early 1989 Playmates' stock has risen about twenty-twofold on the Hong Kong exchange, making the 55% stake of the founding Chan family worth $172 million. The stock was recently trading at 14 times last year's earnings. Investors, in short, are taking it for granted that the Turtles will stay hot and that the Dick Tracy line will be a success, which it may or may not be.—**Julie Schlax**

A compliment of egos

In the computer industry, entrepreneurs' egos tend to grow even faster than their companies, and bitter splits are commonplace. So it's easy to understand industry skepticism about five widely known veterans forming Slate Corp., a new software company to be based in Scottsdale, Ariz. The outfit plans to make software that makes it possible for personal computers to take commands in handwriting; no keyboard will be necessary.

The five founding partners are Vern L. Raburn, onetime general manager of Lotus Development Corp. and a former division president of Microsoft Corp.; Thomas H. Byers, a former vice president at Symantec Corp. and a former marketing manager at Digital Research Inc.; Dottie Hall, who is Raburn's wife and was previously marketing manager at Microsoft and Symantec; Daniel S. Bricklin, co-creator of VisiCalc, the first spreadsheet software; and Mitch Stein, who helped develop early software for the Macintosh personal computer.

Based in Scottsdale, Raburn will be Slate's chairman and chief executive, Byers will be president and Hall will be vice president of marketing. Development will be headed by Bricklin from his base in Boston, Mass., and by Stein in Silicon Valley.

The biggest challenge may be keeping the founders together, a formidable task considering the caliber of talent and the decentralized operations.

Perhaps the excitement of the firm's planned products will be enough to keep its star founders pulling in the same direction. "The chance to be a Wilbur Wright or a Thomas Edison doesn't present itself to every generation," says Raburn. "Being in the computer industry right now presents me with the opportunity to be a part of history."

Hmmm. Note his use of the singular "me" rather than the collective "us."—**Julie Pitta**

Reed Rahn

Slate's founders (clockwise from bottom left): Hall, Raburn, Bricklin, Byers, Stein
So happy together—so far.

KOREA

THE SUPERSONIC ECONOMY

By Ambassador Donald P. Gregg

When I first visited Seoul in 1968, I was struck by the energy of the Koreans and their faith in the future of their country. When I first lived in Seoul in the mid-1970s, the Korean economic situation had progressed, but was vastly different from what it is today. At that time, the U.S. still provided Korea with financial and technical assistance. Per capita GNP stood at about $400 and GNP at $13 billion. At slightly over $2 billion, total trade between our two countries was minuscule. Korean economists were preoccupied with basic questions of how to build a modern economy.

Today, Korea is the world's 16th-largest economy, the tenth-largest trading nation and the U.S.'s seventh-largest trading partner. Total U.S.-Korean trade is approaching $40 billion. Cumulative U.S. investment in Korea reached nearly $2 billion at the end of 1989. Korean investment in the U.S. has grown enormously in recent years and now stands at about $800 million.

With Korea's phenomenal economic success, the bilateral economic relationship is evolving into a true economic partnership. The dynamic relationship we now enjoy provides enormous benefits to both our nations. And I am confident about the future of our relationship. It is true that we have experienced some well-publicized tensions in the recent past. But Korean and U.S. negotiators have succeeded in resolving a number of difficult trade and investment problems. The resulting accords, as they are implemented, will provide significant benefits both to foreign businesses and to Korean consumers, workers and investors. Korean compliance with these agreements is essential, of course, to maintaining an improved atmosphere. As evidence of progress in resolving problems, Korean authorities point to an 80% increase in U.S. exports to Korea to $16 billion between 1987 and 1989, and a halving of the Korean bilateral trade surplus during the same period to $4.7 billion.

The importance of market forces and an open trading system to growing economic prosperity has been strikingly demonstrated by conditions in Eastern Europe and the Soviet Union. One reason for the success of Korea's Nordpolitik is that Eastern Europe has seen what Korea has accomplished and is eager to follow in its footsteps. The culmination of this outstandingly successful diplomatic effort came in June, when President Roh met Soviet President Gorbachev in San Francisco, and then went on to meet with President Bush in Washington. I attended the latter meeting and can attest to its warmth and significance. The atrophied economy in North Korea stands in stark contrast to the dynamism of the South. To continue its almost unparalleled record of economic development and growth, the Republic of Korea needs to pursue vigorously ongoing efforts to liberalize its economy, including its financial markets, and to strengthen the international trading system.

Ambassador Donald P. Gregg

South Koreans, I believe, agree on the need to solve bilateral problems, to take maximum advantage of opportunities such as the current Uruguay Round negotiations to strengthen the international trading system and to use other new opportunities like the Asia Pacific Economic Cooperation Initiative to find imaginative answers to the challenges of the future. We welcome Korea's participation in internationally agreed controls on the export of sensitive high technology goods.

Will Korea and the U.S. have economic differences in the future?

In a country where hepatitis is not only common but frequently fatal, an Indian woman has received a vaccination that prevents it. The Hepaccin B vaccine was mass-produced and exported to her country by Samsung.

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Assuredly. But I believe that the economic relationship will continue to grow and to mature, and that we will work together to manage those differences. My vision of the future is a very positive one. Korean economic potential is high and will be enhanced by further liberalization.

To our Korean friends, I would say that the U.S. admires your achievements and your industriousness and welcomes your competition. Vigorous and fair competition is healthy and mutually beneficial.

To U.S. firms, I would encourage you to pursue aggressively new business opportunities in this dynamic environment brought about by Korean economic growth and new economic policies. My staff and I stand ready to assist you in any way possible. ■

THE SUPERSONIC ECONOMY

By John T. Bennett

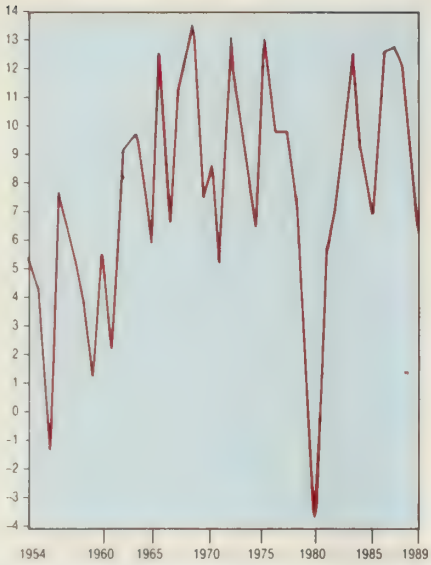
Many Koreans are concerned about their economy. Though exaggerated, their worries have substance. Korea was the supersonic Concorde economy from 1986 to 1988, and many came to view that as normal. Last year it turned into a 747—bigger and slower and, as luck would have it, encountering some rough weather but still flying.

But Korea hasn't always been a Concorde. The record shows exceptional growth over the years since 1953, when the Korean economy hit its low point. But while growth was negative in only two years, the rate has varied widely.

Is the present drop in growth permanent? Probably not. External circumstances accounted for the spurt from 1986 to 1988. Koreans talked at the time of the three blessings—the rise in the yen against the dollar which made exports priced in won cheap, the drop in interest rates and the fall in oil prices. One should add a fourth—economic activity was high in Korea's major export markets, so Korean goods were in demand.

External circumstances explain much of the current slowdown as well.

GROWTH IN REAL GNP (%)



Exports, the engine of Korean growth, have slowed in part because demand for Korean cars and electronics is sated and its major markets are suffering a slowdown. Exports are likely to pick up soon, particularly once U.S. growth speeds up.

Also contributing to the decline has been a set of domestic factors. The rise in the won and in Korean wages have made Korean exports more expensive. And the Korean economy became overheated during the years of double-digit growth, producing shortages of skilled labor.

The Economy Transformed

The Korean War started 40 years ago this June. By the time the truce was signed in 1953, Korea had been ravaged. The country could not feed itself. Hunger, malnutrition, and even starvation were prevalent. The U.S. supplied Korea, first under aid programs and later with loans. Korea then depended on imports not just for food, but also for its energy, most of its raw materials, its machinery, and the technology on which a modern nation depends.

With no alternatives, Korea set out to export to pay for its imports. Its businessmen are deeply imbued with the strategy of exporting in order to grow. The business people worry today about their slow export performance because they remember how difficult it was when foreign exchange was always short.

Samsung Chairman Lee Kun-Hee says, "I have a dream to build Samsung into a world class company, a genuine multinational." That goal is shared virtually by every company, large or small, in Korea.

Trade Frictions with the U.S.

As much as 40% of Korea's exports go to the U.S. Originally low-valued products like wigs, clothing and footwear, they now are more likely to be such higher tech items as cars, TVs and personal computers.

The particular products and the speed with which Korea grew in the American market challenged old line industries first. They sought import relief but got very little. However, the U.S. government decided that if the U.S. market was to remain open, other countries should open theirs too.

As long as Korea was getting foreign aid or borrowing heavily abroad, it could justify some limits on its imports to reserve its foreign exchange for necessities. However, it had already come under pressure from the U.S. to open its markets in the early 1980s, when the country began to run a surplus in its two-way trade here.

Actually, Korea began opening its markets in 1978, when it first looked as if it would run a trade surplus. World conditions changed with the second oil shock, and further opening was postponed a few years. It was then done cautiously, but the rationale was simple—it was good for Korea. As a small country, Korea had to be open, or its industry would be unable to compete and its people would be poorer. Vested interests often argued against importing freely too soon. They have been able to delay opening but not to stop it.

Korea Opens Its Market

The first step in market opening was to eliminate licensing requirements. The list of license-free items grew from 58% in 1978 to 95% in 1989. The easy items—those not produced domestically—were freed first. These were often not the products of greatest interest to the U.S., so that friction continued. Today, nearly all manufactured goods are freely imported. Food products remain the most restricted and are the subject of continuing negotiations with the U.S. and other producers.

The U.S. also pressed Korea to lower its tariffs. It has done so, lowering them from an average of 23% in 1978 to 12% in 1989. It has committed itself to a level equal to that of the developed countries—less than 8%—by 1993.

Korea has also greatly reduced the list of manufactured products not open to foreign investment. It has opened its major service industries—banking, insurance, advertising, shipping, travel, retail and wholesale trade, and stock brokerage—to foreign investment. It now protects patents, copyrights and trademarks, both in law and in practice, making Korea a much better market for foreign intellectual property.

Trade issues remain contentious, but the threat of broad U.S. retaliation against Korean protectionism has largely receded. This spring, Korea negotiated a settlement with the U.S. on beef, enforcement of intellectual prop-

erty protection, telecommunications, and government procurement. This kept the country off the list of worst offenders mandated by the Trade Act. Negotiations over new issues will no doubt occur but should not hide how far Korea has come and how broad the business opportunities have become.

The trade data suggest how little the U.S. still has to complain about. In the first quarter of 1990, exports to the U.S. fell 7%, while imports from the U.S. rose 19%. Korea's trade surplus, which had been $1.175 million in the first quarter last year, fell to $216 million. Some Koreans even worried that their surplus with the U.S. might soon turn to a deficit.

In the meantime, favorable attitudes on importing have spread. Says BIF President Wee Sang-Sik on importing rice, a sacred cow in Korea: "Korea will buy U.S. rice in the next four or five years. Forty million consumers will benefit. No one wants to farm in Korea anymore. Not importing is a mistake."

Korean Investment in the U.S.

Another way Korean companies have responded to trade frictions is to invest in the U.S. Popular particularly with state and local governments, these investments provide jobs and therefore are preferable to importing.

Again, BIF points the way. It has established U.S. sales as a key element in its strategy. To this end, it has opened a sales center, warehouse, and assembly facility in Los Angeles and is about to do the same thing in New York. For BIF, the goal is to be close to market to assure quick delivery and minimize transport costs. Labor costs are not that large a factor in pricing. The company is also targeting quality, both in manufacture and in design. It is seeking a brand-name identity as a globally competitive producer.

Other Korean companies have been equally aggressive in investing here. Samsung has manufacturing facilities in New Jersey. Hyundai has opened an auto assembly plant in Canada, which under the Free Trade Agreement with the U.S., means that cars made there are treated as if they were made in the U.S. Hyundai is selling some of the cars to Chrysler, which will market them under its own name. Other companies will come as well, when it becomes economically advantageous.

Korea Develops Tourism

Tourism to Korea has grown 10% annually in recent years. The Seoul Olympics in September 1988 put Korea on the world travel map. First-class hotel rooms were added rapidly, rising 25% from 1987 to 1989. Large companies like Daewoo, which runs the Seoul Hilton, have taken a lead in hotel investment.

Why do tourists come? Korea is a beautiful country, with mountains, seas, and vistas everywhere. The increase in accommodations has been matched by improved internal communications and facilities. Ssangyong long ago developed Korea's premier ski resort and summer retreat at Dragon Valley.

Everyone expected a drop in tourism after the Olympics—and empty hotel rooms. That made expanding tourism more urgent. Leadership in tourism has been taken by the Korea National Tourism Corporation. Motivated initially by the same need to earn foreign exchange as drove export manufacturing, it promotes tourism through 15 overseas offices, develops resort projects and trains manpower.

Current Economic Problems

The new ministers appointed in March confronted what was popularly seen as an economic crisis. Inflation had leaped to an annual rate of 14% during the first four months, after rising 5.7% in all of last year. The current account moved from a surplus of $5 billion last year to a deficit exceeding $1 billion in the first quarter. Exports declined 1.4% while imports grew 14.5%. GNP growth at 7.1% seemed little better than last year's 6.7%—and fragile. Its major active component, value added in manufacturing, grew 8%, better than last year's 3.7% increase.

Although unemployment stayed low while the labor force increased, the authorities were worried. In addition, rising rents and housing prices suggested that real estate speculation had taken off. The stock market, which had been sinking slowly for a year, took a dive in April, down almost a third from its peak a year earlier.

Augmenting the sense of crisis was the imminent negotiation of this year's union contracts. Wage settlements have been increasing roughly 20% a

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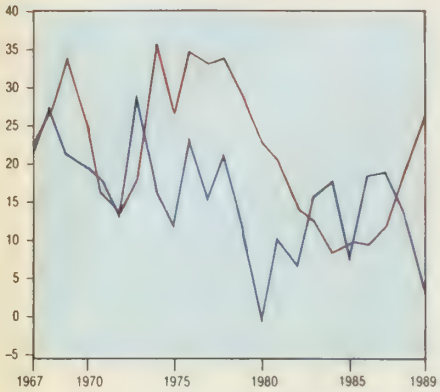
year in the last three years. Actual earnings in manufacturing have been growing at a rising rate, exceeding productivity (as measured by value added in manufacturing) and making Korea less competitive.

WAGES VS. PRODUCTIVITY



GROWTH IN MONTHLY EARNINGS IN MANUFACTURING
GROWTH IN VALUE ADDED IN MANUFACTURING
Source: Bank of Korea

The New Economic Policy

The new cabinet concurred with its predecessors that wages should be kept in line with productivity improvement. It also indicated it would intervene in illegal strikes and not allow wages to be paid for time on strike.

The public sense of crisis seems to have restrained unions. Most have agreed to lower wage increases and have settled labor disputes more quickly so that there have been fewer strikes and much less lost time.

To get manufacturing moving, the government has increased the availability of credit for investment. To help exports, it has partly restored the advance made against export letters of credit. This is the main source of working capital.

At the same time, the government has sought to avoid offending its major trading partners by declaring it would not restrict imports or provide extraordinary incentives to export.

In a related measure, it announced a new method for setting the exchange rate. Many export-oriented firms were calling for devaluation. The U.S., on the other hand, has opposed devaluation and urged Korea to stop manipulating its currency. The government opted to allow the won to move with market forces, in small increments. The won is now down about 5% from the high a year ago in April.

The Business Response

The recent rough economic weather has caused Korean companies to focus on what they need to do to survive and grow. Several themes recur, improving worker relations, increasing labor skills and upgrading technology.

A major response to rising wages in the last few years has been to reduce employment in manufacturing. At the same time, total employment has continued to rise as people shifted to service occupations. Hours worked have also fallen. Capital equipment was substituted for workers.

The second response has been to improve the product mix, particularly in exports. This has always been a Korean strategy: constantly acquire new technology to improve product quality and thus worker productivity. The quickest way to raise output per worker is to produce something worth more.

However, the cost of buying technology has increased as Korea sought more nearly state-of-the-art methods. Indeed, both Japanese and American companies have become reluctant to sell technology at all because they see Korean producers as competitors.

One alternative has been for Korean companies to develop alliances and joint ventures with foreign firms. BIF, for example, has a contractual relationship with an Italian furniture design and manufacturing company, so that its brand name can stand for the best in quality and style.

A second option has been to increase the national and company effort on research and development. Every major company group today—including Hyundai, Samsung, Daewoo and Ssangyong—currently spends several percent of sales on product development carried out in-house.

Companies also work closely with government research centers, for example, developing the basic design of a four megabyte random access memory computer chip.

Business Alliances

The third tactic is to continue to develop joint ventures and other kinds of business alliances. Hyundai has just announced it will manufacture a reduced instruction set chip using a Sun Microsystems specification in cooperation with two other American companies. Samsung continues its close relationship with Hewlett Packard. In contrast, Daewoo has bought Cordata, ZyMOS and Leading Edge to provide it with technology, U.S. based manufacturing facilities and marketing.

Alliances take different forms. General Motors has a joint venture with Daewoo to make cars and Hyundai with Mitsubishi. Ssangyong is searching for a partner in car making. Both technology and marketing are key parts of the relationships, although Hyundai has taken the unusual step of selling most of its cars in the U.S. through its own stand-alone dealer network.

Korea remains behind the developed countries in many product areas. In a sense, that is fortunate, because it means there are many advances still available with which to improve the quality and lower the cost of its manufacturing industry. The alternative of developing its own new technology is both slow and expensive.

The Outlook for Growth: 7%-8%

Korea's prospects remain excellent. There is still a large amount of lagging technology which it can buy and which is better than what it is using. Moreover, Korea continues to better educate its young.

The new generation, especially the third of the population which is now graduating from universities, is capable of producing and earning much more than the parent generation. Some 20% of Korea's labor force is still employed in agriculture. They or their children will move to other, more productive occupations. Finally, women in Korea remain underemployed, compared to developed countries. The new generation of women is increasingly educated and looking to work both for monetary rewards and psychological fulfillment.

The restructuring of the Korean economy to better use its talented hard-working citizens will take perhaps another generation to complete. Something like that span of time is probably required for Korea to catch up technologically in all the major fields of activity. Barring a global economic bust, Korea will likely continue to grow at the 7.7% rate it has averaged since 1953, until it becomes a developed country and its growth rate declines to their 2%-4%. ■

John T. Bennett is a consulting economist. Educated at Harvard, the University of California in Berkeley and Stanford, he devoted 26 years to the Foreign Service, including three years as Economic and Commercial Counselor at the American Embassy in Seoul. In 1982, he founded the Korea Economic Institute of America in Washington and ran it until this past January. He remains a director.

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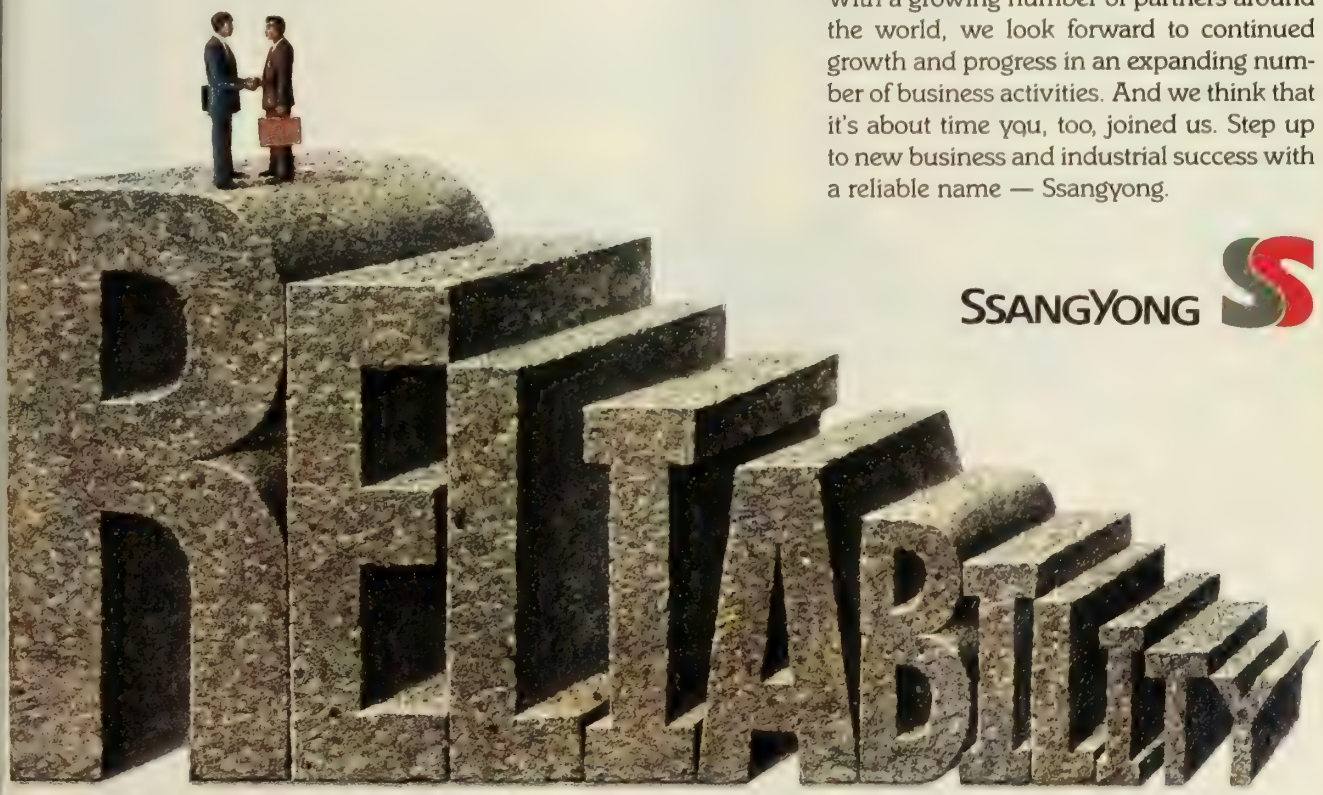

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THE FORBES FOREIGN RANKINGS

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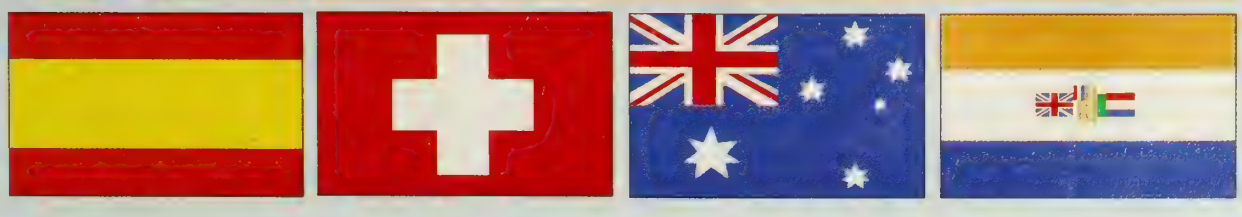

Low-P/E foreign stocks for contrarians

LAST YEAR AMERICAN stocks outperformed foreign stocks, but that may prove an aberration. For the three years ended December 1989, the Morgan Stanley world index of non-U.S. stocks climbed 70% in dollar terms, versus a 43% gain for U.S. stocks.

With so many U.S. investors now using computers to find bargain-priced U.S. issues, the best undervalued situations may be foreign shares. Looking for such stocks, we again turned to Morgan Stanley Capital International Perspective and its extensive international database.

To be a candidate for our cheap stock list, an issue had to sell for no more than 70% of the P/E ratio of its national index. Thus, for example, the Japanese market multiple is 44 times earnings, so only stocks with P/Es below 31 were considered—these aren't cheap stocks, just cheaper. We used a second screen of relative valuation by dropping off stocks with price-to-book values in excess of 90% of the price-to-book ratio of the national market. Finally, we eliminated stocks with a market capitalization under $200 million, so as to include only those foreign stocks that are fairly liquid.

The stocks below are ranked in descending order of cheapness, by P/E ratio. Near the top of the list, France's Peugeot Group is selling for only 4.5 times 1989 earnings. This automaker is having trouble in the U.S. but is doing well in Europe. It is joined on our low-P/E table by Volvo, Volkswagen, Toyota and Honda. These could be real bargains if volume picks up again.

The earnings estimates in the table come courtesy of the International Institutional Brokers Estimate System, a service of New York brokerage Lynch, Jones & Ryan. Of the 100 companies listed below, only 30 are expected to show higher earnings in 1990. That's one reason for the low P/Es.

Treat the table below as a menu of possibilities. It may be tougher to do research on these stocks than it is on, say, Mobil Oil. But a little library work or a call to your broker should help you get the additional information you need to decide whether these stocks are bargains or just cheap.

As a group, last year's 100 undervalued foreign issues were up more than 5%. That was not very good compared with the U.S. market, but it was excellent compared with other foreign stocks: Morgan Stanley's world index (excluding the U.S.) was up only 1%. This suggests contrarian investing strategies can be used globally.

Company/industry	Country	Recent price ($)	EPS 1989 ($)	EPS 1990E ($)	P/E	Yield (%)	Price/book	Revenue ($mil)	Market value ($mil)
Arbed (Lux)/metals-steel	Belgium	153.52	70.95	40.06	2.2	4.7	0.9	5,634	1,112
Vallourec/machinery & eng	France	66.70	19.75	13.13	3.4	3.9	1.1	1,270	339
Repap Enterprises/forest products	Canada	5.97	1.51	0.78	4.0	4.0	0.6	1,032	311
Beazer/construction	United Kingdom	2.21	0.55	0.36	4.0	7.8	0.3	3,380	623
Free State Consolidated Mines/gold mines	South Africa	9.11	2.24	NA	4.1	2.7	0.6	1,412	1,070
NV DSM/chemicals	Netherlands	61.49	13.90	13.28	4.4	6.8	1.1	5,079	2,159
Banque Natl Belgique/banking	Belgium	944.30	212.62	158.58	4.4	6.0	0.6	NA	378
Hoogovens Groep/metals-steel	Netherlands	39.51	8.86	7.76	4.5	7.6	0.8	4,249	877
Peugeot Groupe SA/automobiles	France	144.39	32.29	39.73	4.5	2.9	1.4	23,981	7,209
Elkem/metals nonfer	Norway	44.21	9.21	3.26	4.8	3.5	1.5	1,474	614
Air Canada/airline	Canada	8.75	1.74	0.95	5.0	–	0.7	3,105	638
Trelleborg/industrial comp	Sweden	28.22	5.52	4.41	5.1	3.5	2.0	4,108	1,779
British Steel/metals-steel	United Kingdom	2.41	0.45	0.37	5.3	7.2	0.7	8,268	4,813
Jennings Industries/real estate	Australia	1.33	0.24	0.20	5.4	9.2	0.9	924	253
FAI Insurance/insurance	Australia	1.19	0.22	0.12	5.5	5.8	0.7	440	271
Industrial Equity/multi-industry	Australia	1.64	0.30	0.21	5.5	7.5	1.1	6,091	1,274
National Consolidated/industrial comp	Australia	2.11	0.38	0.41	5.6	13.5	1.1	385	363
DAF/machinery & eng	Netherlands	15.59	2.79	1.26	5.6	8.4	0.7	2,483	453
Pechiney/metals nonfer	France	58.58	10.35	9.36	5.7	6.7	1.3	13,867	2,960
Elders IXL/trading	Australia	1.43	0.25	0.18	5.7	10.5	1.0	10,338	3,143

Stock prices and earnings estimates were converted into U.S. dollars using exchange rates at May 31. Earnings and revenues for 1989 were converted using the average exchange rate for the previous 12 months at fiscal reporting date. E: Estimate. NA: Not available.

Sources: Morgan Stanley Capital International Perspective; FORBES.
Earnings estimates provided by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan.

The 100 cheapest foreign stocks

Company/industry	Country	Recent price ($)	EPS 1989 ($)	EPS 1990E ($)	P/E	Yield (%)	Price/book	Revenue ($mil)	Market value ($mil)
Amec/construction	United Kingdom	6.69	1.16	0.90	5.8	6.3	1.4	3,268	472
News Corporation Ltd/media	Australia	7.72	1.29	0.66	6.0	1.0	0.5	6,430	2,072
Thomson-CSF/aero & defense	France	22.35	3.71	4.05	6.0	8.0	1.0	5,281	2,485
Barratt Developments/construction	United Kingdom	2.85	0.47	0.32	6.1	10.5	1.1	1,007	513
Akzo/chemicals	Netherlands	61.90	10.10	10.93	6.1	6.8	1.2	8,835	2,759
Royal Bank of Scotland/banking	United Kingdom	3.02	0.49	0.47	6.2	5.6	1.0	5,485	2,268
Enso-Gutzeit/forest products	Finland	8.05	1.28	1.09	6.3	3.4	0.8	2,507	1,123
Westpac Banking/banking	Australia	3.81	0.60	0.54	6.3	9.2	0.8	10,475	4,168
David Jones/retailing	Australia	6.14	0.97	1.14	6.3	16.3	1.0	1,029	962
Svenska Handelsbank/banking	Sweden	19.08	2.99	3.10	6.4	3.5	1.9	5,428	2,627
Kingfisher Plc/retailing	United Kingdom	5.47	0.86	0.52	6.4	4.7	1.5	4,741	2,404
ICI Australia/chemicals	Australia	3.45	0.54	0.27	6.4	11.1	1.2	2,501	1,019
Alcan Aluminium/metals nonfer	Canada	22.62	3.58	2.20	6.4	4.9	1.1	8,839	5,033
Dofasco/metals-steel	Canada	19.63	3.02	1.38	6.5	5.6	0.8	3,301	1,289
Canadian Pacific Forest/bldg materials	Canada	27.74	4.23	1.66	6.6	2.5	0.9	2,449	1,219
Privatbanken/banking	Denmark	46.83	7.06	NA	6.6	3.3	0.8	NA	1,865
John Laing/construction	United Kingdom	4.73	0.71	0.65	6.6	6.1	1.2	2,235	410
British Aerospace/aero & defense	United Kingdom	9.06	1.36	1.27	6.7	5.6	0.6	14,897	2,327
Burton Group/retailing	United Kingdom	3.10	0.46	0.38	6.8	6.8	1.4	3,093	1,732
Lex Services/services	United Kingdom	4.40	0.64	0.58	6.8	7.8	1.2	3,279	410
Adelaide Steamship/multi-industry	Australia	3.92	0.57	0.60	6.9	14.1	1.2	334	1,217
Canfor/forest products	Canada	23.15	3.36	2.30	6.9	2.6	1.0	778	528
Amstrad/data processing	United Kingdom	1.07	0.15	0.08	7.0	3.0	1.2	1,074	610
Solvay Group/chemicals	Belgium	412.37	58.73	70.62	7.0	3.8	1.4	6,522	3,417
Noranda Forest/forest products	Canada	10.24	1.45	0.82	7.0	6.7	0.9	4,112	1,011
National Australia Bank Group/banking	Australia	4.96	0.70	0.71	7.1	9.4	1.0	7,464	4,657
Skandinavisaka Enskilda Banken/banking	Sweden	13.21	1.86	1.93	7.1	3.7	1.7	6,506	3,394
Electrolux Group/appliances	Sweden	39.80	5.50	4.94	7.2	5.1	1.1	13,169	2,892
Cookson Group/misc materials	United Kingdom	3.72	0.51	0.49	7.3	5.4	1.5	2,334	1,354
Brascan/multi-industry	Canada	17.92	2.45	1.97	7.3	5.0	1.0	NA	1,455
Donohue/forest products	Canada	8.53	1.16	0.79	7.4	4.8	0.8	541	274
Australian Consolidated Minerals/gold mines	Australia	1.15	0.16	0.15	7.4	2.0	1.2	122	224
Sovac-Credit Mobilier/financial svcs	France	132.34	17.55	19.79	7.5	5.5	1.0	NA	556
SG Warburg Group/banking	United Kingdom	7.05	0.93	0.80	7.6	4.8	1.4	NA	1,325
Abbey National/banking	United Kingdom	3.41	0.45	0.49	7.6	3.7	NA	NA	4,469
Granada/leisure	United Kingdom	4.19	0.54	0.48	7.8	6.6	1.5	2,766	1,263
GKN/machinery & eng	United Kingdom	6.49	0.82	0.79	7.9	6.9	1.5	3,467	1,670
Pioneer International/bldg materials	Australia	1.67	0.21	0.20	8.0	6.9	1.1	3,155	1,205
Caltex Australia/energy	Australia	1.84	0.23	0.25	8.0	–	1.2	1,965	332
T & N/industrial comp	United Kingdom	3.05	0.38	0.43	8.0	7.9	1.0	1,948	1,059

Stock prices and earnings estimates were converted into U.S. dollars using exchange rates at May 31. Earnings and revenues for 1989 were converted using the average exchange rate for the previous 12 months at fiscal reporting date. E: Estimate. NA: Not available

Sources: Morgan Stanley Capital International Perspective, Forbes.
Earnings estimates provided by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan.

The 100 cheapest foreign stocks

Company/industry	Country	Recent price ($)	EPS 1989 ($)	EPS 1990E ($)	P/E	Yield (%)	Price/book	Revenue ($mil)	Market value ($mil)
MacMillan Bloedel/forest products	Canada	15.47	1.92	1.27	8.1	4.4	1.2	2,765	1,587
Rhône-Poulenc Group/chemicals	France	79.27	9.77	10.73	8.1	7.4	1.2	11,452	3,833
Hoechst Group/chemicals	Germany	169.46	20.21	22.32	8.4	7.1	1.6	24,413	9,595
Fletcher Challenge Canada/forest products	Canada	14.40	1.70	0.50	8.5	4.7	1.1	1,185	863
Volvo Group/automobiles	Sweden	75.03	8.81	7.19	8.5	3.4	1.1	14,115	4,374
Crédit Lyonnais/banking	France	151.55	17.71	20.61	8.6	4.0	1.1	24,003	4,222
BASF Group/chemicals	Germany	174.11	20.21	22.64	8.6	6.9	1.3	25,328	9,923
DFDS/shipping	Denmark	571.87	64.71	41.51	8.8	1.6	1.6	615	229
Bayer Group/chemicals	Germany	174.40	19.68	22.07	8.9	6.9	1.3	23,031	11,144
Thyssen Group/metals-steel	Germany	168.51	18.71	19.73	9.0	5.5	2.0	18,308	5,293
Rio Algom/misc materials	Canada	17.71	1.94	1.69	9.1	5.1	1.1	1,444	774
Power Corp of Canada/multi-industry	Canada	13.12	1.42	1.40	9.2	3.9	1.0	227	1,504
Hees Intl Bancorp/financial svcs	Canada	21.34	2.28	2.57	9.4	3.8	1.3	515	1,690
Sears Canada/retailing	Canada	10.03	1.04	0.94	9.7	2.0	1.0	3,853	857
Enimont/chemicals	Italy	1.19	0.12	0.11	9.7	–	NA	11,185	5,040
Rieter Holding/machinery & eng	Switzerland	1,111.11	111.86	NA	9.9	5.7	0.6	1,149	431
Caffaro/chemicals	Italy	1.09	0.11	0.12	10.1	3.7	1.4	447	297
BCE/telecomm	Canada	33.82	3.30	3.35	10.2	6.4	1.3	14,089	10,234
Volkswagen Group/automobiles	Germany	354.41	31.54	37.89	11.2	2.9	1.6	34,760	11,358
Baltica Holding/insurance	Denmark	138.13	11.63	10.08	11.9	0.9	1.1	775	1,830
Neptune Orient Lines/shipping	Singapore	1.06	0.08	0.07	12.7	2.5	0.8	678	487
United Overseas Bank/banking	Singapore	3.00	0.22	0.16	13.5	2.2	1.8	NA	1,660
EVN Energie-Versorgung/utilities	Austria	753.77	45.90	54.62	16.4	1.8	2.0	566	716
Matsushita Elect Indl/appliances	Japan	14.26	0.79	0.78	18.0	0.6	1.6	42,030	29,655
Fuji Photo Film/leisure goods	Japan	27.26	1.46	1.37	18.6	0.3	2.3	6,902	11,544
Toyota Motor/automobiles	Japan	16.55	0.88	0.85	18.9	0.8	2.0	61,052	50,477
Honda Motor/automobiles	Japan	11.76	0.58	0.63	20.1	0.8	1.7	26,970	11,366
Leykam-Murztaler Papier/forest products	Austria	54.44	2.36	4.56	23.1	1.8	2.4	605	534
Hitachi Ltd/elec & electron	Japan	10.25	0.43	0.48	23.7	0.6	2.0	49,557	33,066
Nissan Motor Co/automobiles	Japan	7.95	0.32	0.38	24.5	1.2	1.8	39,525	19,941
Mitsubishi Electric/elec & electron	Japan	6.54	0.25	0.23	26.0	0.9	3.3	20,839	13,960
Sony/appliances	Japan	56.63	2.17	2.26	26.1	0.6	2.1	20,163	18,797
Oji Paper Co/forest products	Japan	7.82	0.30	0.27	26.4	0.7	3.3	4,488	4,750
Royal Co/leisure	Japan	16.42	0.62	0.50	26.5	0.8	2.3	551	668
Orient Corp/financial svcs	Japan	8.93	0.33	0.30	26.9	0.9	2.2	NA	3,048
Gakken/media	Japan	13.47	0.49	NA	27.4	0.7	2.3	1,169	1,352
Best Denki/retailing	Japan	13.07	0.47	0.45	27.7	1.3	3.2	1,426	1,589
House Food/food, household products	Japan	14.45	0.50	0.48	28.7	0.8	2.4	1,078	1,492
Austrian Airlines/airline	Austria	403.69	13.53	12.90	29.8	1.5	2.3	422	1,020
Denny's Japan/leisure	Japan	24.44	0.81	0.80	30.2	0.6	3.3	501	654

Stock prices and earnings estimates were converted into U.S. dollars using exchange rates at May 31. Earnings and revenues for 1989 were converted using the average exchange rate for the previous 12 months at fiscal reporting date. E: Estimate. NA: Not available.

Sources: Morgan Stanley Capital International Perspective; Forbes.
Earnings estimates provided by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan.

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International giants with impressive statistics

HERE ARE SOME snapshots of the 500 largest publicly owned companies outside the U.S.:

• As a group, the Forbes foreign 500 companies' revenues total $5.2 trillion, or 13% more than their sales in 1988. By contrast, the 500 U.S. companies with the largest revenues grossed $3.2 trillion last year *(see* FORBES, *Apr. 30)*.

• The Forbes foreign 500 employ 19.8 million people and earned aggregate profits of $165 billion. The Forbes U.S. Sales 500 employ 19 million and netted $158 billion.

• Based on market values from their respective national stock markets, the foreign companies are worth $3.4 trillion—that's 20.6 times earnings.

The U.S. companies have an overall market value of $2.2 trillion, 13.9 times earnings.

• Of the foreign 500, Japan accounts for the most: 195. It is followed by the U.K., with 82; France, with 48; and Germany, with 37.

• One fact that merits reflection: The six largest companies in the world are all from Japan, but note that all six are trading companies: Their revenues represent values created by other companies further down on the production chain. The largest foreign company is Sumitomo Corp., with $158 billion in revenues and 13,000 employees. The largest U.S. company is General Motors, which has revenues of $127 billion and 775,000 workers. But comparing

The 25 largest public companies outside the U.S.

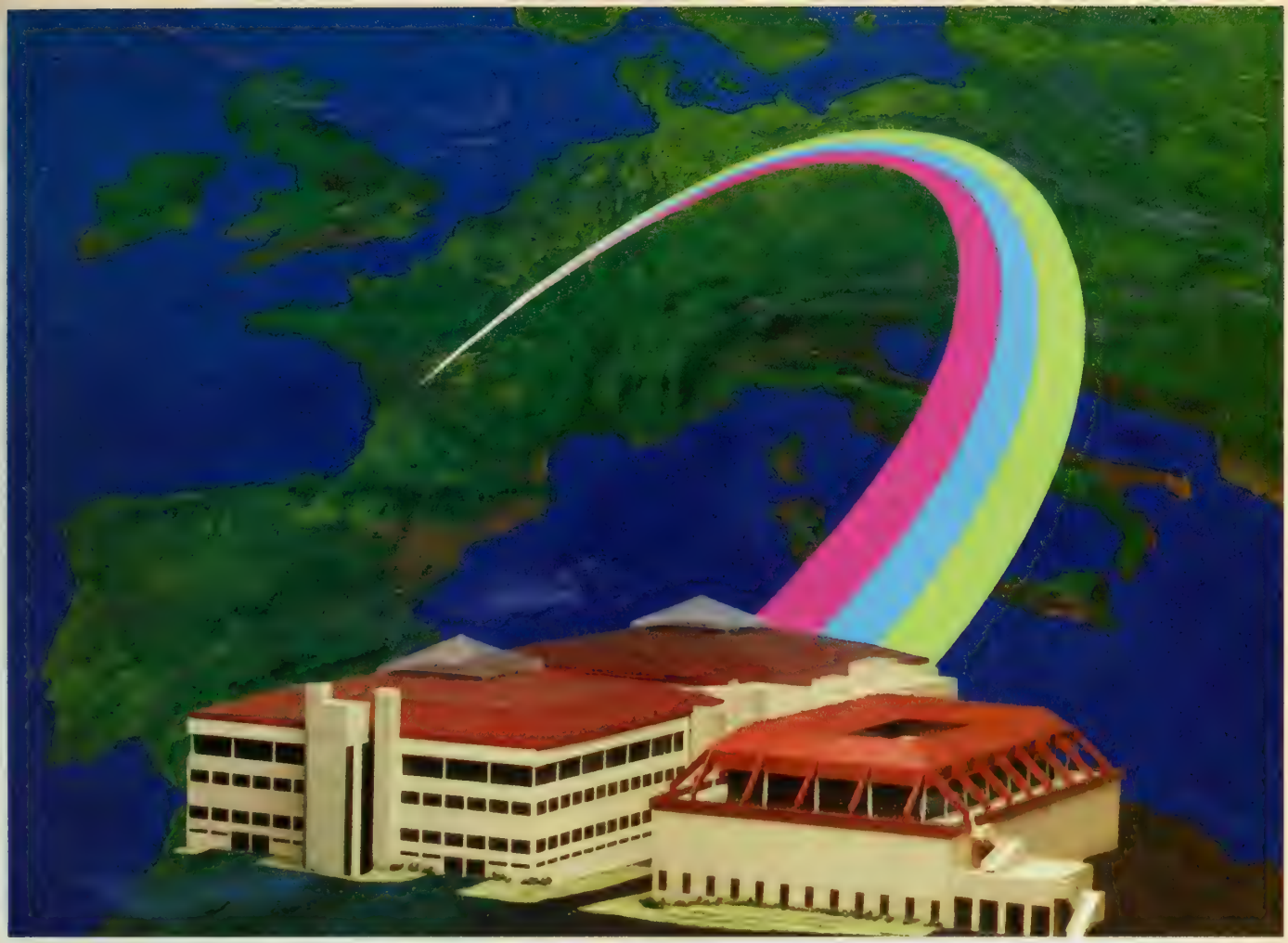
Company/business	Country	Sales ($mil)	Employees (thou)
Sumitomo Corp/trading	Japan	158,221	13.0
C Itoh & Co Ltd/trading	Japan	147,016	10.0
Mitsui & Co Ltd/trading	Japan	136,578	10.8
Marubeni Corp/trading	Japan	131,419	7.3*
Mitsubishi Corp/trading	Japan	129,689	32.0
Nissho Iwai Corp/trading	Japan	108,118	7.2
Royal Dutch/Shell/oil & gas	Holland	85,536	135.0
Toyota Motor Corp/automotive	Japan	61,052	91.8
Hitachi Ltd/multicompany	Japan	49,557	274.5
British Petroleum Co/oil & gas	UK	48,602	119.9
Toyo Menka Kaisha/trading	Japan	45,055	3.3
Nichimen Corp/trading	Japan	42,989	2.8*
Nippon Tel & Tel/communications	Japan	42,166	283.3
Matsushita El Ind/consumer electronics	Japan	42,030	198.3
Daimler-Benz Group/automotive	Germany	40,633	368.2
Nissan Motor Co Ltd/automotive	Japan	39,525	129.5
Kanematsu Corp/trading	Japan	39,219	2.7*
Fiat Group/automotive	Italy	38,044	289.3
Volkswagen Group/automotive	Germany	34,760	250.6
Siemens Group/electrical equipment	Germany	32,676	365.0
Unilever/food processing	Holland	31,256	300.0
Toshiba Corp/multicompany	Japan	29,757	125.0
Dai-Ichi Kangyo Bank/banking	Japan	29,628	18.5*
Nestlé/food processing	Switz	29,341	196.9
Tokyo Electric Power Co*/utility	Japan	28,636	39.6

*Not consolidated.

And 25 very large non-publicly-owned ones

Company/business	Country	Sales ($mil)	Employees (thou)
Nippon Life Ins/insurance	Japan	47,405[1]	14.5
Dai-ichi Mutual Life Ins/insurance	Japan	35,146[1]	16.5
Samsung Group[2]/multi-industry	Korea	34,663	176.9
Zenkyoren/insurance	Japan	32,777	0.8
Sumitomo Life Ins/insurance	Japan	31,414[1]	11.3
Renault Group/automobiles	France	27,347	174.6
Meiji Mutual Life Ins/insurance	Japan	24,916	7.9
Crédit Agricole/banking	France	22,537	73.7
Daewoo Group/multi-industry	Korea	20,067	91.1
Tengelmann Group/retailing	Germany	19,933	150.0
Asahi Mutual Life Ins/insurance	Japan	15,968[1]	9.0
Robert Bosch Group/automobiles	Germany	15,758[1]	165.7[1]
Mitsui Mutual Life Ins/insurance	Japan	15,269	32.0
Groupe Usinor Sacilor/metals-steel	France	15,203	95.8
Pemex-Petról Mexicanos/oil & gas	Mexico	15,064	164.7
Norinchukin Bank/banking	Japan	13,895	3.1
Kuwait Petroleum Corp/energy	Kuwait	13,056	15.4
Ruhrkohle/energy	Germany	12,447	124.8
Idemitsu Kosan Co Ltd/energy	Japan	11,605[1]	5.5
Krupp Group/metals-steel	Germany	9,415	65.2
Statoil Group/energy	Norway	9,244	11.0
Sunkyong Group/multi-industry	Korea	9,053	21.2
Neste Group/oil & gas	Finland	9,053	21.2
Vendex Intl Group/retailing	Holland	7,312	55.2
Bertelsmann/media	Germany	6,725	43.7

[1]Figures are latest available. [2]Some individual companies in the group are traded on the stock exchange.



Overview of opportunity in EC '92: Will your facilities be ready?

Seen from the perspective of opportunity, the 12-nation European Community, with its 330,000,000 consumers, is a market of virtually limitless potential.

Successful competition in this megamarket will require advanced facilities: factories, research laboratories, distribution centers, intelligent office buildings.

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the two is apples and oranges.

Once again we created our rankings with the help of the Morgan Stanley Capital International Perspective database, which supplied much of the raw data on foreign companies. Reflecting the globalization of world equity markets, Morgan Stanley's Geneva research organization now covers 2,468 publicly traded companies in 21 countries, and has become an invaluable resource.

The earnings estimates in the tables come from the international database of the Institutional Brokers Estimate System, a service of New York brokerage firm Lynch, Jones & Ryan. This operation brings together opinions from 2,900 analysts in 26 countries covering 5,500 companies. According to these forecasts, the three European countries expected to see the most earnings growth in 1990 are Norway, Ireland and Spain. Other international markets that look particularly hot, based on earnings forecasts, are Singapore, the Philippines and Indonesia. There are only three markets in which analysts are expecting something of an earnings decline this year: Denmark, the Netherlands and Taiwan.

Revenues, net income and assets are as of the latest available fiscal year. As is the common practice on Wall Street, we treated corporate earnings with fiscal dates of June 1989 or later as 1989 earnings. For example, as of its balance sheet date of Feb. 28, 1990, Ito-Yokado Co. Ltd. of Japan reported fiscal earnings of $1.01 a share. We consider these profits to be its 1989 earnings. For those firms that have not reported 1989 results we used the Institutional Brokers Estimate System forecast, if it was available, and marked the figure with an "E."

Income and balance sheet information was converted into U.S. currency using the 12-month average exchange rate as of the reporting date. Foreign assets were converted into dollars using the month-end exchange rate as of the fiscal date. Stock prices, market capitalization and 1990 earnings estimates were converted as of the May 31, 1990 exchange rate.

Are there big companies missing from our rankings? There are. France's Renault and Norway's Statoil, for example, are not ranked. Nor are West Germany's Tengelmann Group, Bosch Group, Krupp Group and Bertelsmann. The reason is that these businesses are either owned by their respective governments or owned privately. The Forbes foreign 500 consists of publicly owned companies whose equity is becoming increasingly liquid and available as the world's stock markets become networked together. On the bottom of page 318 we show the 25 largest public foreign corporations and, for comparison, the 25 largest nonpublic foreign companies.

An index begining on page 346 shows the page on which each of the international 500 companies can be found.

Australia

P/E 12 • Yield 6% • Market value $124 billion • Year to date price change –10%

The Australian stock market, in a slump since September 1989, has fallen by nearly 10% (in U.S. dollars) since January. Monetary policy remains tight: Short-term interest rates currently stand near 15%. Strength in the Australian dollar, while good news for inflation, may prove bad for exports. Contrarians might find opportunities here. Citing an average market P/E just over 12, Bryan Madden, director of research for Prudential-Bache in Australia, believes Australian stocks are currently undervalued.

1989 Rank	Company/business	Revenue ($mil)	Net income ($mil)	Assets ($mil)	Market value ($mil)	Stock price ($)	EPS 1989 ($)	EPS 1990E ($)	Yield (%)	Employees (thou)
100	•**Coles Myer Ltd**/retailing	11,382	315	3,704	2,957	5.65	0.61	0.54	6.1	166.8
113	•**Westpac Banking**/banking	10,475	638	84,317	4,168	3.81	0.60	0.54	9.2	47.5
117	•**Elders IXL Ltd**/trading	10,338	546	7,587	3,143	1.43	0.25	0.18	10.5	33.7
154	•**Broken Hill Prop**/energy	8,602	849	14,968	10,457	7.14	0.64E	0.71	3.8	49.0
170	■**ANZ Banking**/banking	8,019	418	65,776	3,571	3.88	0.69	0.62	8.7	47.0
187	•**National Australia**/banking	7,464	632	59,115	4,657	4.96	0.70	0.71	9.4	35.4
209	•**Bond Corp Holdings**/multi-industry	6,921	–800	8,840	42	0.10	NA	NA	0.0	20.2
232	•**News Corporation Ltd**/media	6,430	405	14,404	2,072	7.72	1.29	0.66	1.0	30.9
249	■**Industrial Equity**/multi-industry	6,091	231	3,347	1,274	1.64	0.30	0.21	7.5	23.0
379	■**CRA Limited**/metals nonfer	3,940	514	6,364	5,376	9.29	0.81	0.80	4.8	21.1
402	•**Pacific Dunlop**/multi-industry	3,663	215	3,107	2,672	3.72	0.31	0.33	3.9	44.8
414	■**CSR Group**/multi-industry	3,487	314	4,135[1]	2,910	4.04	0.44	0.47	6.5	18.3
456	■**TNT**/trucking, RR	3,187	181	2,979	1,026	1.96	0.34	0.22	5.9	50.7
462	■**Pioneer Intl**/bldg materials	3,155	146	2,652	1,205	1.67	0.21	0.20	6.9	9.9
490	■**Boral Ltd**/bldg materials	2,958	246	2,572	2,304	2.72	0.29	0.31	6.5	22.0

•Sponsored ADR. ■Not sponsored. All figures except per-share items are in millions of U.S. dollars. General note: Revenue, net income and 1989 EPS are converted at an average rate of exchange for the fiscal year; assets are converted at fiscal year-end rate. Revenue figures are for group or consolidated operations and exclude excise taxes and duties. For companies with January, February or March fiscal year-ends, 1989 figures are used unless noted. Market value is as of May 31, 1990. [1]Figures are latest available. E: Estimate. NA: Not available.

Sources: Morgan Stanley Capital International Perspective; Forbes.
Earnings estimates provided by the International Edition of Institutional Brokers Estimate System (IBES).

THE KISS OF DEATH?

We now import more than 40 percent of all the oil we use, and that percentage continues to grow. This excessive dependence on foreign oil could poison America's economy and our national security if our supply were ever disrupted.

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America's 112 nuclear electric plants already have cut foreign oil dependence by 4 billion barrels since the oil embargo of 1973, saving us $115 billion in foreign oil payments.

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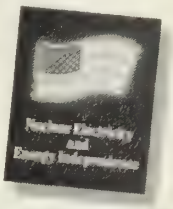

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The 500 largest foreign companies

Belgium

P/E 11 • Yield 5% • Market value $73 billion • Year to date price change –5%

The Brussels stock market is small but growing rapidly. During 1989 alone, 141 new securities were listed, bringing the total to almost 500. There are 155 foreign companies traded, including 35 from the U.S. Belgium has a favorable investment climate: Individual investors pay no capital gains taxes and corporations can be exempt if they hold a security for at least five years. And there are no specific restrictions on foreign investors. Most stocks are now traded through a new computerized trading system that went into effect in 1989.

1989 Rank	Company/business	Revenue ($mil)	Net income ($mil)	Assets ($mil)	Market value ($mil)	Stock price ($)	EPS 1989 ($)	EPS 1990E ($)	Yield (%)	Employees (thou)
102	**Petrofina SA**/energy	11,268	554	10,305	7,443	343.64	25.02	29.58	4.6	23.6
192	**Générale Bank Group**/banking	7,373	65	68,119	1,843	143.18	11.08E	18.70	7.1	16.4[2]
221	**Delhaize "Le Lion"**/retailing	6,598	81	1,953	1,841	179.55	7.89	10.69	1.3	55.0
230	**Solvay Group**/chemicals	6,522	485	6,809	3,417	412.37	58.73	70.62	3.8	45.0
268	**Arbed SA (Lux)**/metals-steel	5,634	444	5,402	1,122	153.52	70.95	40.06	4.9	11.5
282	**GIB Group**/retailing	5,392	72	1,492[1]	1,220	39.29	2.32	2.77	2.7	31.4
294	**Bank Bruxelles Lambert**/banking	5,183	125	50,879	1,286	86.77	11.00	11.17	6.0	12.1[2]
311	**Cockerill Sambre SA**/metals-steel	4,771	391	5,215[1]	1,825	5.73	1.22	1.09	0.0	31.0
328	**Kredietbank NV**/banking	4,580	132	48,199	1,699	115.12	8.04	13.45	5.3	11.8

Canada

P/E 15 • Yield 4% • Market value $238 billion • Year to date price change –10%

After closely pacing the U.S. stock market from 1985 to 1989, Canada is now falling behind. With gold and resource stocks weak, the Canadian market lost 9.9% in U.S. dollars through May 1990. In contrast, the Wilshire index of U.S. issues is off 0.6%. Lloyd Atkinson, chief economist at the Bank of Montreal, sees the economy slowing to a 1% growth rate in 1990. He blames high interest rates, restrictive fiscal policy and the strong Canadian dollar. Another problem: uncertainty over whether the provinces will stick together.

1989 Rank	Company/business	Revenue ($mil)	Net income ($mil)	Assets ($mil)	Market value ($mil)	Stock price ($)	EPS 1989 ($)	EPS 1990E ($)	Yield (%)	Employees (thou)
78	**BCE Inc**/telecomm	14,089	1,014	33,910	10,234	33.82	3.30	3.35	6.4	120.0
105	**Royal Bank of Canada**/banking	11,111	444	97,692	5,742	19.95	1.57	2.95	5.0	48.0
114	**Campeau**/real estate	10,439	–1,740	14,295[1]	77	1.74	–39.59	NA	0.0	120.0
135	**Canadian Imperial Bank**/banking	9,476	378	85,353	4,118	23.47	1.92	3.81	5.6	36.5
138	**Canadian Pacific Ltd**/multi-industry	9,308	629	16,454	5,977	18.78	1.98	1.49	4.2	75.6
143	**Bank of Montreal**/banking	8,962	43	67,217	2,573	22.83	0.03	3.84	7.9	33.7
145	**Alcan Aluminium Ltd**/metals nonfer	8,839	835	9,508	5,033	22.50	3.58	2.20	4.9	57.0
147	**George Weston Ltd**/retailing	8,834	127	3,067	1,528	33.07	2.53	2.81	1.8	56.0
177	**Noranda**/metals nonfer	7,735	373	12,130	3,140	16.75	1.85	1.41	5.1	59.0
195	**Bank of Nova Scotia**/banking	7,306	186	68,989	2,258	11.95	0.85	2.41	7.1	29.6
247	**Toronto-Dominion Bank**/banking	6,118	584	53,743	4,624	15.36	1.85	1.90	4.2	28.0
293	**Provigo Inc**/retailing	5,192	26	1,218	625	7.25	0.30	0.65	2.8	12.5
297	**Thomson Corp**/media	5,112	420	6,955	6,812	12.48	0.78	0.81	3.6	44.6
330	**Seagram Co Ltd**/bev & tobacco	4,508	711	10,213	8,169	86.00	7.37	8.04	2.3	17.6
337	**Great-West Lifeco**/insurance	4,476	92	16,316	893	11.31	1.17	1.37	3.8	6.0
357	**Oshawa Group Ltd**/retailing	4,185	59	804	939	26.67	1.78	2.01	1.4	22.8
367	**Nova Corp of Alberta**/utilities	4,088	157	6,825	2,136	7.15	0.54	0.38	6.2	12.7
370	**Hudson's Bay Co**/retailing	4,035	103	3,286	1,232	27.63	2.53	2.49	2.5	40.0
373	**John Labatt**/bev & tobacco	4,021	112	2,324	1,355	17.92	1.47E	1.73	3.5	16.0
377	**INCO**/metals nonfer	3,948	753	3,665	2,875	27.63	7.11	2.77	3.6	19.3

All figures except per-share items are in millions of U.S. dollars. General note: Revenue, net income and 1989 EPS are converted at an average rate of exchange for the fiscal year; assets are converted at fiscal year-end rate. Revenue figures are for group or consolidated operations and exclude excise taxes and duties. For companies with January, February or March fiscal year-ends, 1989 figures are used unless noted. Market value is as of May 31, 1990. [1]Figures are latest available. [2]Not fully consolidated. E: Estimate. NA: Not available.

Sources: Morgan Stanley Capital International Perspective; Forbes.
Earnings estimates provided by the International Edition of Institutional Brokers Estimate System (IBES).

The 500 largest foreign companies

Canada

1989 Rank	Company/business	Revenue ($mil)	Net income ($mil)	Assets ($mil)	Market value ($mil)	Stock price ($)	EPS 1989 ($)	EPS 1990E ($)	Yield (%)	Employees (thou)
405	**Imasco Ltd**/bev & tobacco	3,577	309	4,645	3,714	31.15	2.42	2.79	3.5	83.8
441	**Dofasco**/metals-steel	3,301	219	4,397	1,289	19.63	3.02	1.38	5.6	22.7
459	**Royal Trustco Ltd**/banking	3,178	224	34,398	1,581	12.70	1.44	1.57	4.8	8.7
461	**Natl Bank of Canada**/banking	3,170	27	28,896	931	7.79	0.05	1.58	7.9	12.3
465	**Crownx**/multi-industry	3,126	44	1,061	263	9.92	0.95	NA	3.4	30.7
471	**Air Canada**/airlines	3,105	126	3,551	638	8.75	1.74	0.95	0.0	23.2

France

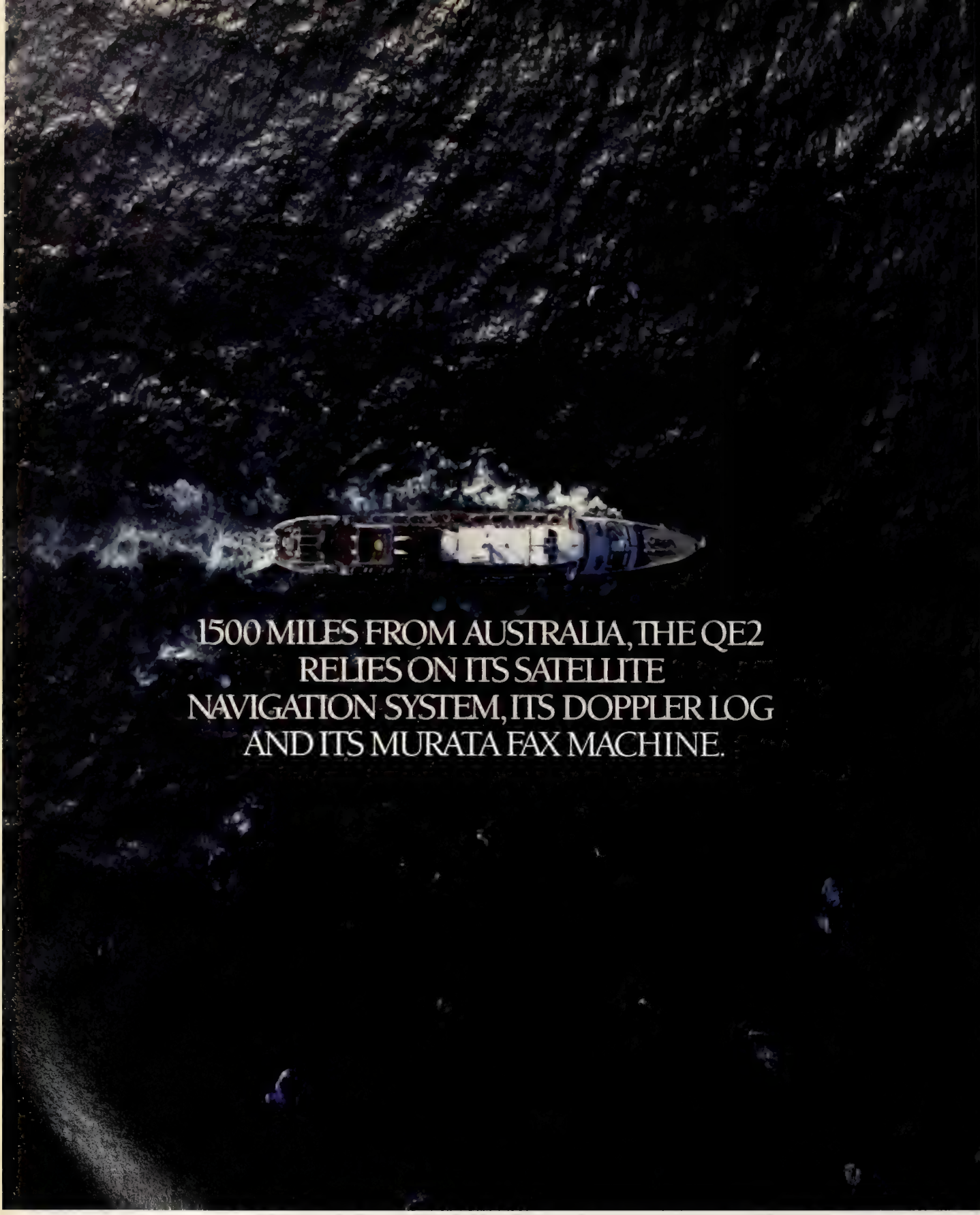
P/E 13 • Yield 3% • Market value $358 billion • Year to date price change 6%

Measured by its capitalization of $358 billion, France's is the third-largest European stock exchange. Its futures market, MATIF, is among the largest in the world. The French stock market underwent major reforms in 1988 as Bourse membership was transferred from individuals to firms. Other financial institutions and corporations, both French and foreign, may now invest in French brokerage houses. Most trading in France is executed on a continuous basis between 10 a.m. and 5 p.m. through an electronic trading system.

1989 Rank	Company/business	Revenue ($mil)	Net income ($mil)	Assets ($mil)	Market value ($mil)	Stock price ($)	EPS 1989 ($)	EPS 1990E ($)	Yield (%)	Employees (thou)
37	**Crédit Lyonnais**/banking	24,003	491	210,727	4,222	151.55	17.71	20.61	4.0	61.5
38	■**Peugeot Groupe SA**/automobiles	23,981	1,614	16,151[1]	7,209	144.39	32.29	39.73	2.9	158.1
39	•**Elf Aquitaine Group**/energy	23,510	1,129	33,181	13,685	122.92	10.14	15.07	4.5	78.0
42	**Générale d'Elec**/elec & electron	22,570	774	30,943	11,404	111.22	7.54	7.53	2.6	210.0
43	**Suez Group**/banking	22,538	636	125,163	9,702	81.52	5.37	7.46	2.2	75.0
46	**BNP Group**/banking	21,235	535	231,463	5,019	85.38	9.10	11.30	4.4	60.3
59	**TOTAL Française des Pétroles**/energy	16,911	346	15,276	4,496	123.79	9.52	11.89	4.2	41.2
61	**Société Générale**/banking	16,334	558	175,787	6,661	107.20	9.00	11.50	3.7	46.0
65	**Générale des Eaux**/services	15,470	287	18,663	8,918	475.77	15.83	20.69	1.9	154.0
72	**Paribas Group**/banking	14,316	541	138,668	7,893	115.76	9.58	11.01	2.7	26.5
79	**Pechiney**/metals nonfer	13,867	523	13,384	2,960	58.58	10.35	9.36	6.7	70.0
80	**GAN-Assur Nationales**/insurance	13,589	392	38,010	3,556	391.97	42.65	48.91	NA	26.0
95	**Carrefour Group**/retailing	11,577	185	5,279	4,093	640.77	29.00	38.25	2.5	46.6
98	•**Rhône-Poulenc Group**/chemicals	11,452	473	14,371	3,833	79.27	9.77	10.73	7.4	86.0
116	**Saint-Gobain**/misc materials	10,360	676	13,449	6,381	102.84	10.89	12.73	3.7	87.8
121	**UAP-Union des Assur**/insurance	10,107	536	35,385[1]	9,136	108.77	7.93	9.31	2.1	29.9
151	**Michelin Group**/industrial comp	8,661	384	11,021	2,344	22.37	3.74E	4.08	2.8	119.8
164	**Promodès Group**/retailing	8,128	136	2,580[1]	1,132	733.30	34.80	39.88	1.6	33.2
182	■**BSN-Groupe**/food, household	7,628	423	9,729	8,224	151.55	7.79	9.70	2.0	49.7
183	**Schneider SA**/machinery & eng	7,570	137	10,561[1]	2,659	190.31	11.73	12.26	1.7	75.0
193	**Bouygues Group**/construction	7,367	90	7,255	1,812	116.46	5.77	7.63	3.1	59.2
218	**AGF-Assur Générales**/insurance	6,730	403	25,207	4,605	209.34	18.31	21.82	1.7	17.8
239	**Crédit Commercial**/banking	6,229	110	45,603	1,850	41.99	2.50	3.04	2.2	12.3
276	**Casino Groupe**/retailing	5,494	NA	2,647	1,248	25.07	1.67	1.84	6.3	38.2
291	•**Thomson CSF SA**/aero & defense	5,281	413	18,107[1]	2,485	22.35	3.71	4.05	8.0	42.0
296	■**Groupe Bull**/data processing	5,129	–59	5,367	607	12.59	–1.41	NA	0.0	43.6
306	**CFAO-Fran de l'Afrique**/trading	4,888	47	3,783	1,219	103.54	4.11	6.57	2.9	31.3
309	**Crédit Foncier**/banking	4,822	85	53,127	2,366	246.18	8.81	20.24	3.5	3.5[2]
312	**Lafarge Coppée**/bldg materials	4,759	341	7,429	4,541	85.73	6.44	7.93	2.7	31.0

•Sponsored ADR. ■Not sponsored. All figures except per-share items are in millions of U.S. dollars. General note: Revenue, net income and 1989 EPS are converted at an average rate of exchange for the fiscal year; assets are converted at fiscal year-end rate. Revenue figures are for group or consolidated operations and exclude excise taxes and duties. For companies with January, February or March fiscal year-ends, 1989 figures are used unless noted. Market value is as of May 31, 1990. [1]Figures are latest available. [2]Not fully consolidated. [3]Based on current cost accounting. E: Estimate. NA: Not available.

Sources: Morgan Stanley Capital International Perspective; FORBES.
Earnings estimates provided by the International Edition of Institutional Brokers Estimate System (IBES).



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The 500 largest foreign companies

France

1989 Rank	Company/business	Revenue ($mil)	Net income ($mil)	Assets ($mil)	Market value ($mil)	Stock price ($)	EPS 1989 ($)	EPS 1990E ($)	Yield (%)	Employees (thou)
329	**Hachette SA**/media	4,537	74	3,601[1]	1,404	71.41	3.76	3.84	1.4	31.0
335	**Dumez Group**/construction	4,485	89	4,006[1]	1,231	111.22	8.02	9.21	2.7	28.9
339	**Groupe Printemps**/retailing	4,446	82	2,740[1]	843	124.49	12.13	7.79	2.9	30.0
341	**L'Aire Liquide Group**/chemicals	4,428	283	5,265[1]	5,894	131.65	6.32	7.86	2.6	27.0
353	■**L'Oréal Group**/personal care	4,259	283	3,936	5,424	937.58	48.90	51.40	1.7	28.4
369	**SAE-Aux d'Enterprise**/construction	4,061	32	4,367	772	193.63	7.96	13.16	4.1	26.0
392	**Euromarché SA**/retailing	3,793	–9	1,466[1]	766	682.67	–8.31	5.74	0.0	20.4
394	**Docks de France**/retailing	3,789	37	1,406	790	696.64	33.54	45.43	2.4	21.1
403	**OCP-Off Comm Pharm**/chemicals	3,655	14	857	237	108.25	6.41	8.99	3.2	6.1
419	**MATRA**/aero & defense	3,462	95	4,471[1]	1,665	71.67	4.08	5.30	2.9	21.0
429	**Lyonnaise des Eaux**/services	3,390	114	5,067[1]	3,702	128.68	4.59	5.39	1.9	43.0
435	**GTM-Entrepose**/construction	3,354	18	3,581[1]	637	298.56	8.47	17.41	1.9	24.5
438	**CMB Packaging**/misc materials	3,341	177	4,409	2,771	36.84	2.12	2.82	2.6	33.7
450	**IMETAL**/metals nonfer	3,254	74	1,316	725	64.08	6.51	7.07	3.5	5.9
467	**Accor SA**/leisure	3,122	95	2,483[1]	3,221	176.34	5.59	7.16	1.9	66.0
477	•**LVMH**/bev & tobacco	3,078	460	5,467	9,888	813.62	35.89	45.94	2.0	13.3
480	■**Valeo**/industrial comp	3,063	147	3,143	1,344	109.47	11.95	15.57	2.2	34.2
482	**Chargeurs SA**/multi-industry	3,041	110	3,741	1,239	189.26	16.93	20.70	3.9	21.0
489	**HAVAS**/services	2,958	150	1,739[1]	3,942	118.73	3.95	5.08	1.3	9.4

Germany

P/E 17 • Yield 3% • Market value $369 billion • Year to date price change 4%

The reunification of the two Germanys will not be without setbacks. A surge of East German immigrants is straining the West German economy. And it could cost an estimated $500 billion to rebuild East Germany's infrastructure. Nevertheless, analysts expect West Germany's economy to continue to expand, and grow 4% over the coming year. West German firms like Volkswagen have already made deals with East Germany. Reflecting the prospects, the West German market's P/E is the second highest in Europe, after Austria.

1989 Rank	Company/business	Revenue ($mil)	Net income ($mil)	Assets ($mil)	Market value ($mil)	Stock price ($)	EPS 1989 ($)	EPS 1990E ($)	Yield (%)	Employees (thou)
15	■**Daimler-Benz Group**/automobiles	40,633	3,420	36,952	22,498	482.85	27.13	32.07	2.3	368.2
19	■**Volkswagen Group**/automobiles	34,760	523	33,496	11,358	354.41	31.54	37.89	2.9	250.6
20	■**Siemens Group**/elec & electron	32,676	787	34,470	21,214	426.00	24.21	28.32	2.7	365.0
31	**VEBA Group**/utilities	26,174	672	20,362[1]	11,087	252.47	15.48	18.85	4.0	94.7
33	■**BASF Group**/chemicals	25,328	1,072	20,689	9,923	174.11	20.21	22.64	6.9	137.0
34	■**Hoechst Group**/chemicals	24,413	1,026	19,637	9,595	169.46	20.21	22.32	7.1	169.3
41	■**Bayer Group**/chemicals	23,031	1,108	21,284	11,144	174.40	19.68	22.07	6.9	170.2
47	■**RWE Group**/utilities	20,995	339	21,967	11,954	283.11	11.96	15.15	2.9	78.2
53	■**Thyssen Group**/metals-steel	18,308	408	11,179	5,293	168.51	18.71	19.73	5.5	133.8
58	**Allianz Worldwide**/insurance	16,932E	0	18,581[1]	24,888	1,508.37	30.62E	37.15	0.7	43.1
63	■**Deutsche Bank Group**/banking	15,745	699	202,606	18,962	458.99	23.33E	29.17	2.8	56.6
77	**BMW-Bayer Motoren**/automobiles	14,104	297	12,186	5,526	350.87	18.78	34.37	3.3	66.3
91	■**Mannesmann Group**/machinery & eng	11,877	246	9,553	6,058	209.46	12.77	14.83	3.5	125.8
110	**Metallgesellschaft**/multi-industry	10,758	76	4,868	2,812	370.02	12.07	14.59	2.5	24.5

•Sponsored ADR. ■Not sponsored. All figures except per-share items are in millions of U.S. dollars. General note: Revenue, net income and 1989 EPS are converted at an average rate of exchange for the fiscal year; assets are converted at fiscal year-end rate. Revenue figures are for group or consolidated operations and exclude excise taxes and duties. For companies with January, February or March fiscal year-ends, 1989 figures are used unless noted. Market value is as of May 31, 1990. [1]Figures are latest available. [2]Not fully consolidated. E: Estimate. NA: Not available.

Sources: Morgan Stanley Capital International Perspective; Forbes.
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The 500 largest foreign companies

Germany

1989 Rank	Company/business	Revenue ($mil)	Net income ($mil)	Assets ($mil)	Market value ($mil)	Stock price ($)	EPS 1989 ($)	EPS 1990E ($)	Yield (%)	Employees (thou)
118	■Dresdner Bank/banking	10,299	335	145,423	8,538	244.52	14.71E	17.46	4.5	36.9
140	M A N Group/machinery & eng	9,188	128	7,712	4,115	284.00	10.52	14.60	2.6	62.0
149	Preussag Group/multi-industry	8,700	149	7,626	3,763	266.32	14.41	19.36	2.8	65.7
160	■Commerzbank/banking	8,264	296	112,825	4,096	163.50	11.20E	13.61	5.1	27.6
179	Degussa AG/misc materials	7,675	93	3,549	2,009	275.16	16.57	18.28	3.7	33.7
206	■Deutsche Lufthansa/airlines	6,944	58	7,234	3,018	101.05	3.32E	3.84	3.6	51.9
207	Münchener Rück [1]/insurance	6,935	32	16,446	8,579	1,349.28	15.91	15.85	0.7	1.7
208	Kaufhof/retailing	6,924	47	2,791	3,200	382.10	8.51	11.16	2.0	44.2
211	Karstadt Group/retailing	6,893	74	2,766[1]	2,876	399.48	8.74	12.93	2.3	67.2
223	Co op AG/retailing	6,577[1]	NA	NA	NA	NA	NA	NA	0.0	42.6
227	■Bayer Vereinsbank/banking	6,535	148	102,256	3,133	219.77	18.35E	21.15	5.4	15.0
243	Henkel Group/food, household	6,191	193	5,030	5,058	360.00	16.49	20.92	2.3	38.1
256	Bayer Hypotheken/banking	5,913	151	90,129	3,659	221.54	19.50E	22.57	5.4	11.9[2]
267	■Hoesch Group/metals-steel	5,680	38	5,124	1,475	207.40	19.15	22.98	4.4	44.5
273	VIAG Group/multi-industry	5,550	141	7,023	3,813	241.57	15.00	19.07	3.0	34.7
302	Feldmühle Nobel/misc materials	5,057	86	4,075	2,426	303.21	12.23	15.24	3.0	35.4
303	Asko/retailing	4,973E	67E	1,971[1]	1,785	540.30	23.94	30.47	2.5	93.0
338	■Continental Group/industrial comp	4,458	121	3,184	1,528	175.58	13.83	16.50	4.2	47.5
356	Philipp Holzmann AG/construction	4,186	78	1,352[1]	2,500	889.70	12.31E	16.75	1.0	28.4
444	VEW-Vereinigte Elek/utilities	3,276	81	6,049	2,634	131.69	6.05	7.07	4.2	8.1
470	Schering Group/personal care	3,109	120	3,622	2,791	469.60	21.81	25.30	2.5	25.3
497	Hochtief/construction	2,906	42	2,563	3,903	780.70	12.35E	18.43	1.2	26.2
500	Linde AG/machinery & eng	2,900	96	2,653	3,389	588.03	22.34	28.11	2.2	15.1

Italy

P/E 15 • Yield 3% • Market value $186 billion • Year to date price change 7%

Italy has only about 240 investor-owned companies, representing about 7% of Europe's total market value. However, the capitalization of the Italian market, currently $186 billion, has increased 50% from last year. Italy's financial center is in Milan. There are relatively few individual investors, and most trading activity occurs off the exchange floor. In the first quarter inflation declined to an annual rate of 6.2%, allowing monetary policy to be eased: In May the discount rate was cut from 13.5% to 12.5%.

1989 Rank	Company/business	Revenue ($mil)	Net income ($mil)	Assets ($mil)	Market value ($mil)	Stock price ($)	EPS 1989 ($)	EPS 1990E ($)	Yield (%)	Employees (thou)
18	■Fiat Group/automobiles	38,044	2,412	40,492[1]	17,850	8.56	1.03	1.26	3.5	289.3
84	■STET/telecomm	12,920	988	37,430[1]	9,153	5.17	0.39E	0.49	3.1	116.2
89	Ferruzzi Group/multi-industry	12,076E	227	24,854	3,298	2.55	0.16	0.22	1.4	44.5
94	Generali Group/insurance	11,629E	473	28,390	18,663	35.21	0.78E	0.95	0.8	21.2
104	EnimontSpA/chemicals	11,185	522	14,153	5,040	1.19	0.12	0.11	5.8	52.7
202	Pirelli SpA/industrial comp	7,007	172	8,637[1]	2,334	2.38	0.23E	0.25	3.7	70.3
222	Olivetti Group/data processing	6,582	148	10,892	3,331	5.84	0.25	0.43	3.7	56.9
409	Alitalia/airlines	3,516	–161	3,009[1]	1,055	1.40	–0.23	0.01	0.0	27.5
422	SME/food, household	3,437	71	1,975[1]	1,501	3.44	0.16	0.18	2.6	20.0

•Sponsored ADR. ■Not sponsored. All figures except per-share items are in millions of U.S. dollars. General note: Revenue, net income and 1989 EPS are converted at an average rate of exchange for the fiscal year; assets are converted at fiscal year-end rate. Revenue figures are for group or consolidated operations and exclude excise taxes and duties. For companies with January, February or March fiscal year-ends, 1989 figures are used unless noted. Market value is as of May 31, 1990. [1]Figures are latest available. [2]Not fully consolidated. E: Estimate. NA: Not available.

Sources: Morgan Stanley Capital International Perspective; Forbes.
Earnings estimates provided by the International Edition of Institutional Brokers Estimate System (IBES).

The 500 largest foreign companies

Japan

P/E 44 • Yield 1% • Market value $3,428 billion • Year to date price change –22%

And you think Wall Street is volatile! In December 1989 Japan's market capitalization reached $4.1 trillion, more than five times its value in December 1985, thanks in big part to the dollar's devaluation against the yen. Then, in the first quarter of 1990, Japanese equities lost $1.2 trillion. Since then it has recouped 10% of its loss, but the Nikkei average (as of June 25, 1990) is still off 20% from its Dec. 1989 peak. In 1989 Americans invested another $3 billion in Japan; other foreigners sold $13 billion.

1989 Rank	Company/business	Revenue ($mil)	Net income ($mil)	Assets ($mil)	Market value ($mil)	Stock price ($)	EPS 1989 ($)	EPS 1990E ($)	Yield (%)	Employees (thou)
1	Sumitomo Corp/trading	158,221	350	35,681	9,331	8.80	0.36	0.31	0.6	13.0
2	■C Itoh & Co Ltd/trading	147,016	246	48,156	8,904	6.25	0.17	0.19	0.5	10.0
3	•Mitsui & Co Ltd/trading	136,578	255	61,169	10,455	6.83	0.17	0.23	0.6	10.8
4	■Marubeni Corp/trading	131,419	235	51,889[1]	8,256	5.58	0.16	0.09	0.6	7.3[2]
5	■Mitsubishi Corp/trading	129,689	423	74,288	16,719	10.71	0.26	0.30	0.5	32.0
6	Nissho Iwai Corp/trading	108,118	129	28,077[1]	4,799	6.12	0.18	0.17	0.5	7.2
8	■Toyota Motor Corp/automobiles	61,052	2,634	49,639	50,477	16.55	0.87	0.85	0.8	91.8
9	•Hitachi Ltd/elec & electron	49,557	1,477	49,650	33,066	10.25	0.43	0.48	0.6	290.8
11	Toyo Menka Kaisha/trading	45,055[1]	47[1]	13,480[1]	3,690	5.52	0.09E	0.08	0.6	3.3
12	Nichimen Corp/trading	42,989	64	13,872[1]	2,237	5.29	0.15	0.16	0.6	2.8[2]
13	Nippon Tel & Tel/telecomm	42,166	1,917	72,655	118,881	762.05	12.29	9.69	0.4	283.3
14	•Matsushita Electric/appliances	42,030	1,652	49,944[1]	29,655	14.26	0.79	0.78	0.6	198.3
16	■Nissan Motor Co Ltd/automobiles	39,525	812	36,546	19,941	7.95	0.32	0.38	1.2	129.5
17	Kanematsu Corp/trading	39,219	61	11,144	1,312	6.35	0.30	0.29	0.8	2.7[2]
22	Toshiba Corp/elec & electron	29,757	924	32,960	22,926	7.23	0.29	0.29	0.8	125.0
23	■Dai-Ichi Kangyo Bank/banking	29,628	1,015	437,437	49,606	15.90	0.46	0.35	0.4	18.5[2]
25	Tokyo Electric Power[2]/utilities	28,636	518	77,645[1]	41,709	31.14	0.39	0.46	1.1	39.6
26	■Sanwa Bank Ltd/banking	27,587	1,134	388,980	45,632	15.77	0.39	0.37	0.4	13.6[2]
27	■Mitsubishi Bank Ltd/banking	27,019	998	354,290[1]	47,199	16.42	0.35	0.35	0.3	14.5[2]
28	•Honda Motor Co Ltd/automobiles	26,976	572	18,090	11,366	11.76	0.58	0.63	0.8	79.2
30	■Sumitomo Bank Ltd/banking	26,815[1]	1,620[1]	409,448[1]	55,854	17.74	0.47E	0.43	0.3	16.0[2]
35	•NEC Corp/elec & electron	24,113	597	23,435	20,465	13.47	0.39	0.36	0.4	114.6
44	■Fuji Bank Ltd/banking	22,353[1]	1,420[1]	367,187[1]	53,207	18.39	0.47E	0.36	0.3	15.0[2]
48	■Mitsubishi Electric/elec & electron	20,839	537	20,492[1]	13,960	6.54	0.25	0.23	0.9	85.7
49	Nippon Steel Corp/metals-steel	20,543[1]	609[1]	26,285[1]	28,193	4.09	0.12E	0.10	0.8	57.2[2]
51	•Sony Corp/appliances	20,163	720	27,800	18,797	56.63	2.17	2.26	0.6	95.6
55	■Indl Bank of Japan/banking	18,093[1]	653[1]	270,004[1]	67,661	28.77	0.30E	0.26	0.2	5.6[2]
56	■Fujitsu Ltd/data processing	17,852	607	18,902	17,406	9.66	0.34	0.39	0.6	115.0
57	Mitsubishi Motors/automobiles	17,043[1]	148[1]	11,337[1]	5,329	6.24	0.16E	0.15	0.6	37.9
60	Mazda Motor Corp/automobiles	16,804	164	9,960[1]	6,513	6.08	0.15	0.16	0.8	28.1[2]
62	Mitsubishi Heavy/machinery & eng	15,963	473	23,658[1]	23,509	7.03	0.14	0.19	0.7	56.2
64	■Daiei Inc/retailing	15,561	67	7,964[1]	5,641	14.58	0.17	0.19	0.7	16.4[2]
69	■Mitsui Taiyo Kobe[4]/banking	14,749[1]	608[1]	221,565[1]	49,840	15.11	0.29E	0.29	0.3	11.0[2]
70	Kansai Electric [2]/utilities	14,563	392	40,856[1]	24,821	25.62	0.41	0.39	1.3	24.7
73	■Tokai Bank Ltd/banking	14,290[1]	498[1]	240,083[1]	23,537	11.63	0.19	0.24	0.5	12.2[2]
74	■Bank of Tokyo Ltd/banking	14,246[1]	473[1]	199,962[1]	19,131	9.59	0.20E	NA	0.5	17.0
75	Nippon Oil Co Ltd/energy	14,226[1]	220[1]	13,465[1]	10,113	8.28	0.14E	0.12	0.5	9.7
81	Toyota Tsusho Corp/trading	13,359[1]	65[1]	5,427[1]	1,923	7.69	0.24E	0.21	0.6	1.8[2]
86	Long-Term Credit Bk/banking	12,762[1]	412[1]	184,688[1]	32,468	135.33	2.32E	1.94	0.4	3.5[2]
88	■Bridgestone Corp/industrial comp	12,242	70	11,436	8,073	10.51	0.09	0.17	0.8	93.2

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Sources: Morgan Stanley Capital International Perspective; Forbes.
Earnings estimates provided by the International Edition of Institutional Brokers Estimate System (IBES).

The 500 largest foreign companies

Japan

1989 Rank	Company/business	Revenue ($mil)	Net income ($mil)	Assets ($mil)	Market value ($mil)	Stock price ($)	EPS 1989 ($)	EPS 1990E ($)	Yield (%)	Employees (thou)
90	Chubu Electric Power[2]/utilities	11,973	301	30,276[1]	17,929	24.31	0.41	0.38	1.4	20.5
92	•Ito-Yokado Co Ltd/retailing	11,810	415	6,091	11,342	27.79	1.01	1.02	0.5	30.7
93	■Taisei Corp/construction	11,788[1]	130[1]	14,820[1]	9,565	9.39	0.20E	0.21	0.6	12.2[2]
101	Sumitomo Trust/financial svcs	11,307[1]	617[1]	116,630[1]	17,558	14.12	0.45E	0.40	0.4	6.8[2]
106	Kawasho Corp[2]/trading	11,079[1]	13[1]	5,436[1]	831	6.90	0.19E	0.17	0.6	1.5
107	■Kajima Corp/construction	11,062	200	12,859	12,557	13.14	0.21	0.24	0.6	16.0[2]
108	■Mitsubishi Trust/financial svcs	10,956[1]	634[1]	124,195[1]	18,555	14.26	0.46E	0.40	0.4	6.3[2]
109	■NKK Corp/metals-steel	10,759[1]	715[1]	20,197[1]	16,201	4.60	0.10E	0.10	0.7	23.4[2]
111	Cosmo Oil Co Ltd/energy	10,712	67	8,044[1]	3,834	6.77	0.12	0.08	0.5	3.1[2]
112	Mitsui Trust & Bank/financial svcs	10,579[1]	530[1]	186,445[1]	12,985	10.84	0.38E	0.33	0.5	6.5[2]
120	Showa Shell Sekiyu/energy	10,235	59	5,675	2,386	8.74	0.22	0.15	0.5	2.4[2]
122	Shimizu Corp/construction	10,104[1]	122[1]	13,033[1]	11,238	14.32	0.23	0.29	0.4	10.7[2]
123	■Sanyo Electric Co/appliances	10,022	123	14,180	12,653	6.64	0.07	0.07	0.8	55.5
124	■Isuzu Motors Ltd/machinery & eng	9,911	123	7,256	6,909	6.83	0.12	0.09	0.5	13.4[2]
127	•Canon Inc/leisure-goods	9,792	278	11,405	8,457	11.50	0.38	0.43	0.7	44.4
130	Kobe Steel Ltd/metals-steel	9,745[1]	199[1]	15,040[1]	11,813	4.19	0.06E	0.07	0.8	21.7[2]
132	Nippon Express Co/trucking, RR	9,592	121	5,928[1]	8,512	7.95	0.11	0.10	0.4	50.3[2]
133	■Jusco Co Ltd/retailing	9,586	109	5,609	4,611	14.98	0.33	0.38	0.8	23.3
134	■Sumitomo Metal Ind/metals-steel	9,535[1]	452[1]	14,843[1]	12,486	4.14	0.12E	0.12	0.8	20.6[2]
136	■Nippondenso Co/industrial comp	9,444	351	9,028	12,446	15.11	0.49	0.43	0.6	49.4
137	■Sharp Corp/appliances	9,416	292	12,930	12,676	12.02	0.28	0.29	0.6	34.0
144	■Kawasaki Steel Corp/metals-steel	8,896[1]	378[1]	13,339[1]	13,350	4.11	0.13E	0.12	0.8	18.4[2]
153	■Yasuda Trust & Bank/financial svcs	8,610[1]	476[1]	80,598[1]	13,360	12.74	0.43E	0.36	0.4	5.6
155	■Japan Air Lines/airlines	8,514[1]	157[1]	9,216[1]	19,922	117.59	1.43E	1.46	0.3	21.2[2]
158	Seiyu Ltd/retailing	8,273	54	7,548[1]	2,758	14.91	0.29	0.29	0.7	11.6[2]
161	■Asahi Chemical Inds/chemicals	8,262	299	7,602[1]	8,532	6.28	0.22	0.17	0.7	22.9
162	■Nomura Securities/financial svcs	8,199[1]	1,966[1]	34,935[1]	32,564	16.62	1.06E	0.70	0.6	15.0
165	Mitsubishi Kasei[2]/chemicals	8,122E	175E	10,778[1]	7,460	5.30	0.12	0.10	0.7	8.9[2]
167	Kyushu Electric [2]/utilities	8,100[1]	279[1]	22,242[1]	9,780	20.89	0.43E	0.36	1.6	14.6
168	Tohoku Electric[2]/utilities	8,061[1]	257[1]	17,160[1]	10,618	21.35	0.46E	0.37	1.5	13.7
173	■Asahi Glass Co Ltd/misc materials	7,922	428	8,551	15,153	13.01	0.37	0.35	0.5	9.3[2]
174	■Kumagai Gumi Co Ltd/construction	7,912E	70E	14,111[1]	5,477	8.08	0.13	0.13	0.7	8.4[2]
175	Nichii Co Ltd/retailing	7,862	101	5,697	4,244	15.50	0.35	0.39	0.8	15.4
181	Taiyo Fishery Co/food, household	7,632E	13E	3,395[1]	1,449	4.83	0.08E	0.09	0.4	13.5
184	Nippon Credit Bank/banking	7,559[1]	297[1]	119,811[1]	19,207	111.02	1.91E	1.80	0.4	2.4
186	Dai Nippon Printing/services	7,492	287	7,210[1]	10,015	13.40	0.38	0.38	0.5	20.8
188	Mitsui Real Estate/real estate	7,422	284	18,978[1]	10,624	13.34	0.36	0.37	0.5	8.0
189	Ohbayashi Corp/construction	7,399	84	10,239	8,491	11.43	0.25E	0.25	0.4	11.3
190	Toyo Trust & Bank/financial svcs	7,392[1]	370[1]	125,296[1]	9,736	12.42	0.40E	0.36	0.4	5.3[2]
194	Takashimaya Co Ltd/retailing	7,308	116	4,244[1]	4,338	19.84	0.53	0.61	0.3	8.0[2]
197	Snow Brand Milk Prod/food, household	7,165[1]	52[1]	3,077[1]	2,090	7.42	0.21E	0.19	0.6	8.2[2]
198	■Toppan Printing Co/services	7,134[1]	226[1]	5,964[1]	7,763	12.09	0.39E	0.36	0.5	10.9[2]
200	■Mitsukoshi/retailing	7,081	51	2,821[1]	6,061	12.61	0.11	0.12	0.3	11.6[2]
203	■Sumitomo Electric/industrial comp	7,002	186	5,768[1]	7,395	10.51	0.26	0.29	0.5	13.8[2]
210	■Fuji Photo Film/leisure-goods	6,902	619	9,281	11,544	27.26	1.46	1.37	0.3	18.2

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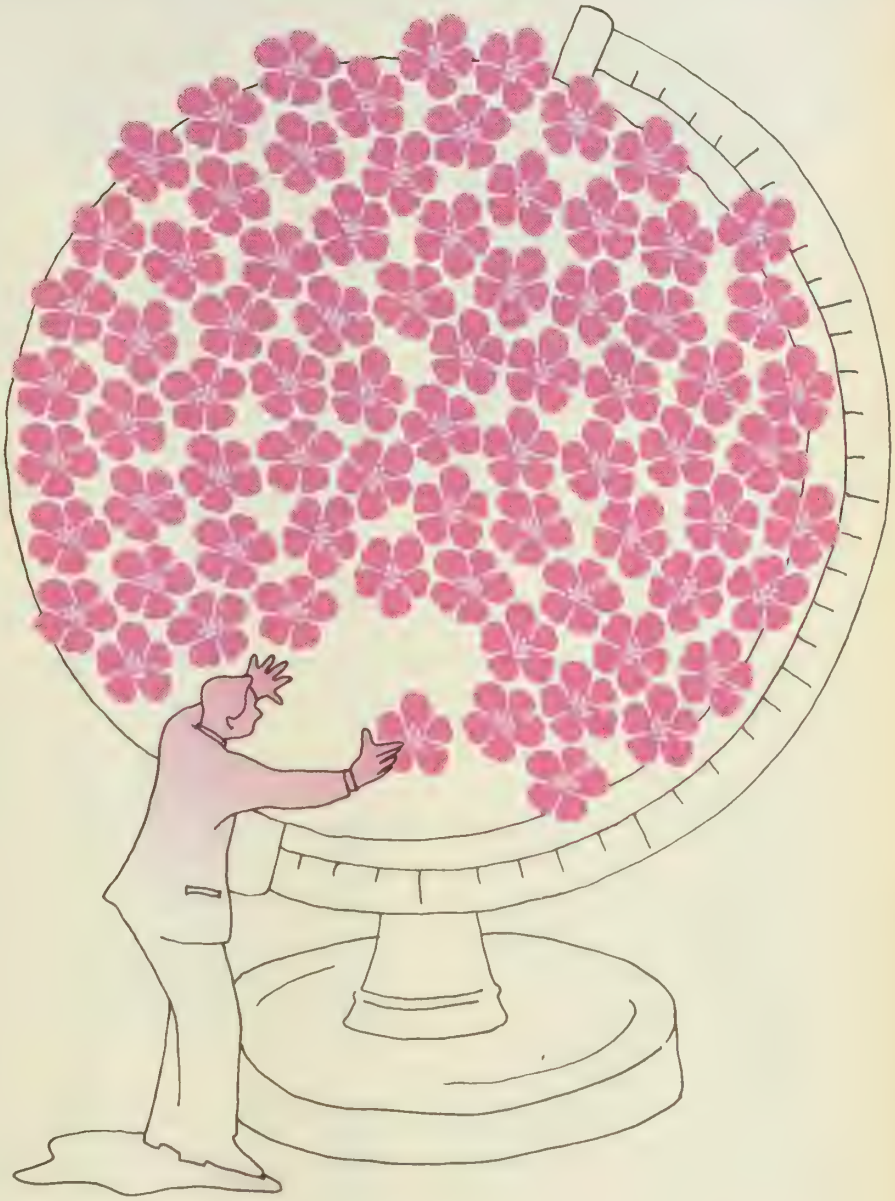

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The 500 largest foreign companies

Japan

P/E 44 • Yield 1% • Market value $3,428 billion • Year to date price change –22%

1989 Rank	Company/business	Revenue ($mil)	Net income ($mil)	Assets ($mil)	Market value ($mil)	Stock price ($)	EPS 1989 ($)	EPS 1990E ($)	Yield (%)	Employees (thou)
212	Suzuki Motor Co Ltd/automobiles	6,883	39	4,728[1]	2,414	5.91	0.10	0.16	0.8	13.3[2]
215	•Tokio Marine & Fire/insurance	6,839[1]	725[1]	58,126[1]	15,927	10.31	0.22E	0.20	0.5	11.0[2]
216	Kawasaki Heavy/machinery & eng	6,830[1]	91[1]	7,531[1]	8,832	6.64	0.08E	0.08	0.5	17.0[2]
217	Sumitomo Chemical Co/chemicals	6,821	254	7,516	7,617	4.70	0.16	0.14	0.8	12.5
219	Nippon Mining Co Ltd/energy	6,728[1]	107[1]	7,086[1]	6,112	6.90	0.09E	0.07	0.5	5.4[2]
226	■Matsushita Elec Work/elec & electron	6,545	233	6,009	8,258	13.66	0.39	0.38	0.6	15.2[2]
228	Daiwa Bank Ltd[2]/banking	6,530[1]	305[1]	162,915[1]	14,240	10.05	0.24E	0.20	0.5	8.7
233	■Kyowa Bank Ltd[2]/banking	6,407[1]	281[1]	105,112[1]	10,896	8.34	0.18	0.21	0.6	7.9
234	■Sekisui House Ltd/construction	6,389	260	7,095[1]	7,568	13.20	0.45	0.49	0.9	10.0[2]
236	■Daiwa Securities Co/financial svcs	6,371E	1,225E	38,983[1]	14,965	11.17	0.39	0.53	0.8	9.4
238	Chugoku Electric[2]/utilities	6,245[1]	242[1]	16,342[1]	7,636	21.02	0.44E	0.35	1.6	11.4
241	•Komatsu Ltd/machinery & eng	6,210	191	8,550[1]	7,940	8.01	0.19	0.21	0.7	21.6
242	■Saitama Bank Ltd[2]/banking	6,203[1]	226[1]	96,956[1]	9,565	9.46	0.26E	0.26	0.5	7.8
245	Ishikawajima-Harima/machinery & eng	6,128[1]	104[1]	8,598[1]	10,236	7.88	0.09E	0.09	0.3	15.4[2]
257	■Toray Industries/chemicals	5,910	283	7,324[1]	7,659	5.52	0.20	0.14	0.9	26.2
259	•Ricoh Co Ltd/data processing	5,846	111	5,290	4,773	7.42	0.17	0.23	0.9	37.0
260	Yasuda Fire & Marine[2]/insurance	5,799[1]	128[1]	21,166[1]	6,819	7.69	0.13	0.13	0.6	10.8
261	Itoman & Co Ltd/trading	5,775[1]	47[1]	9,110[1]	1,566	8.87	0.25E	0.24	0.5	1.4[2]
262	Daimaru/retailing	5,759	29	2,527[1]	2,571	9.53	0.11	0.10	0.3	7.2[2]
264	•Kubota Ltd/machinery & eng	5,748	53	6,303[1]	10,361	7.36	0.04	0.09	0.6	15.7[2]
265	Kinki Nippon Railway/trucking, RR	5,699[1]	120[1]	8,432[1]	10,994	7.23	0.09E	0.07	0.5	11.5[2]
266	Tokyo Gas Co Ltd/utilities	5,684[1]	315[1]	7,151[1]	15,154	5.39	0.08E	0.07	0.6	12.8[2]
269	Dainippon Ink & Chem/chemicals	5,622	57	5,626[1]	3,787	4.82	0.07	0.07	0.8	20.1
272	■Furukawa Electric/industrial comp	5,567[1]	91[1]	4,985[1]	4,181	6.40	0.15E	0.13	0.6	7.1[2]
275	Mitsubishi Metal/metals nonfer	5,525	106	5,539[1]	4,176	6.08	0.16	0.14	0.6	7.2[2]
281	Hanwa Co Ltd[2]/retailing	5,405	154	35,777[1]	9,638	25.56	0.41	0.42	0.3	1.2
283	Fuji Electric Co Ltd/elec & electron	5,384	97	5,445[1]	5,171	7.29	0.14	0.13	0.6	12.8[2]
284	Daihatsu Motor Co/automobiles	5,364	10	3,613[1]	2,286	5.37	0.10E	0.11	0.7	18.6
285	Takeda Chemical Ind/personal care	5,356[1]	303[1]	6,715[1]	10,088	11.56	0.37E	0.30	0.6	13.7
286	Chori Co Ltd/trading	5,355[1]	11[1]	3,043[1]	572	7.09	0.16E	0.14	0.5	1.5[2]
288	Mitsubishi Oil Co/energy	5,317[1]	68[1]	4,363[1]	2,902	8.41	0.17E	0.13	0.4	2.4[2]
289	Toshoku Ltd/trading	5,315	18	3,479	1,227	11.23	0.17	0.18	0.3	0.6[2]
292	Toyo Seikan Kaisha/misc materials	5,239[1]	182[1]	3,921[1]	4,252	25.29	1.21E	1.12	0.2	6.4[2]
298	Hokkaido Takushoku/banking	5,108	139	75,585	7,393	7.95	0.15	0.16	0.5	6.6[2]
300	■Nippon Yusen Kaisha/shipping	5,068[1]	23[1]	7,430[1]	7,340	6.41	0.04E	0.05	0.4	2.0[2]
301	■All Nippon Airways/airlines	5,059	106	6,503[1]	15,435	11.23	0.08	0.09	0.3	12.3[2]
304	Sekisui Chemical/bldg materials	4,904[1]	179[1]	4,286[1]	5,462	10.18	0.42E	0.40	0.5	5.4[2]
305	■Hino Motors[2]/machinery & eng	4,901	69	2,127[1]	2,632	7.36	0.19	0.17	0.5	8.3
315	Tonen Corp/energy	4,726	184	4,758	7,051	10.91	0.31	0.27	1.5	2.3
319	Osaka Gas Co Ltd/utilities	4,654[1]	260[1]	6,361[1]	11,785	4.67	0.07E	0.06	0.7	9.5[2]
322	■Fuji Heavy Inds/automobiles	4,630	–42	5,522[1]	2,604	4.47	–0.07	0.03	1.2	15.8[2]
324	Nippon Meat Pack/food, household	4,620[1]	90[1]	2,727[1]	2,487	12.09	0.48E	0.43	0.7	14.8
325	Aisin Seiki Co Ltd/industrial comp	4,600[1]	94[1]	3,101[1]	2,855	10.58	0.39E	0.36	0.7	9.8[2]
326	■Kirin Brewery Co Ltd/bev & tobacco	4,598	222	8,310	12,577	12.55	0.22	0.22	0.4	8.0[2]
327	■Kanebo Ltd/textile,apparel	4,594	9	4,787[1]	2,483	5.00	0.06E	0.06	0.7	8.1[2]

•Sponsored ADR. ■Not sponsored All figures except per-share items are in millions of U.S. dollars. General note: Revenue, net income and 1989 EPS are converted at an average rate of exchange for the fiscal year; assets are converted at fiscal year-end rate. Revenue figures are for group or consolidated operations and exclude excise taxes and duties. For companies with January, February or March fiscal year-ends, 1989 figures are used unless noted. Market value is as of May 31, 1990. [1]Figures are latest available. [2]Not fully consolidated. E: Estimate. *Sources: Morgan Stanley Capital International Perspective; Forbes. Earnings estimates provided by the International Edition of Institutional Brokers Estimate System (IBES).*

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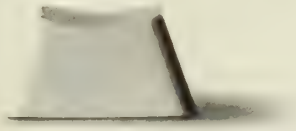

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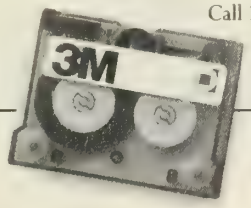

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The 500 largest foreign companies

Japan

1989 Rank	Company/business	Revenue ($mil)	Net income ($mil)	Assets ($mil)	Market value ($mil)	Stock price ($)	EPS 1989 ($)	EPS 1990E ($)	Yield (%)	Employees (thou)
331	**Ube Industries Ltd**/misc materials	4,506[1]	152[1]	6,342[1]	4,018	4.83	0.08E	0.07	0.7	7.3[2]
333	■**Oji Paper Co Ltd**/forest products	4,488	180	5,074[1]	4,750	7.82	0.30	0.27	0.7	5.5[2]
336	**Uny Co Ltd**/retailing	4,477	64	2,921[1]	2,556	14.19	0.36	0.39	0.8	14.0
342	■**Bank of Yokohama Ltd**[2]/banking	4,426[1]	158[1]	82,484[1]	9,208	8.67	0.17E	0.16	0.4	6.6
344	■**Daiwa House Ind**/construction	4,382	175	4,613	7,361	15.70	0.50	0.54	0.5	8.5
346	■**Kao Corp**/food, household	4,341	125	4,031[1]	5,506	10.77	0.24	0.27	0.5	6.5[2]
347	**Oki Electric**/elec & electron	4,335	119	4,416	4,111	6.90	0.23E	0.20	0.7	13.8[2]
349	■**Teijin Ltd**/chemicals	4,319[1]	159[1]	6,298[1]	4,960	5.14	0.19E	0.17	0.9	11.0
352	■**Fujita Corp**/construction	4,272[1]	66[1]	8,379[1]	4,854	10.84	0.18	0.19	0.5	5.5
358	**Toda Construction Co**[2]/construction	4,181	86	4,656	3,323	14.58	0.37	0.34	0.4	5.5
359	■**Nippon Suisan Kaisha**/food, household	4,155[1]	22[1]	2,316[1]	1,474	4.98	0.06E	0.05	0.7	3.5[2]
360	**Yamaha Motor Co Ltd**/leisure-goods	4,152	47	3,614[1]	1,845	8.01	0.20	0.19	0.5	7.4
361	**Showa Denko KK**/chemicals	4,117	54	4,456	5,521	5.32	0.05	0.10	0.7	5.1[2]
363	**Nippon Light Metal**/metals nonfer	4,116[1]	115[1]	3,562[1]	2,792	6.34	0.21E	0.17	0.5	4.3[2]
364	■**Marui**/retailing	4,115	194	4,440[1]	6,901	20.76	0.58	0.62	0.6	9.4[2]
371	**Shinsho Corp**[2]/trading	4,029[1]	3[1]	1,894[1]	635	8.08	0.09E	0.09	0.4	1.0
375	**Ajinomoto Co**/food, household	3,976[1]	123[1]	5,311[1]	9,015	13.93	0.21E	0.19	0.5	9.5
376	**Hazama Corp**/construction	3,954	37	4,036	3,248	10.12	0.12	0.16	0.5	4.9
380	**Nagase & Co Ltd**/trading	3,929[1]	53[1]	2,069[1]	1,309	8.67	0.36E	0.32	0.6	1.2[2]
381	■**Toyobo Co Ltd**/textile,apparel	3,922[1]	57[1]	3,724[1]	3,789	5.49	0.09E	0.08	0.6	8.2[2]
382	**Sumitomo Metal Minin**/metals nonfer	3,914[1]	105[1]	3,502[1]	5,352	10.71	0.25E	0.21	0.4	3.2[2]
385	**Jujo Paper Co Ltd**/forest products	3,890[1]	124[1]	4,332[1]	2,727	5.72	0.26E	0.18	0.8	4.5[2]
393	**Matsuzakaya**/retailing	3,789	67	1,620[1]	7,653	49.27	0.43	0.45	0.1	7.1[2]
397	**Daikyo**[2]/real estate	3,732	116	9,483[1]	3,998	21.74	0.63	0.78	0.7	2.4
399	**Mitsui Toatsu Chems**/chemicals	3,711[1]	126[1]	4,403[1]	3,781	4.99	0.19E	0.17	0.7	5.4[2]
400	**Haseko Corp**/construction	3,710	91	7,414[1]	3,737	8.74	0.21	0.24	0.8	2.6
401	■**Konica**/leisure-goods	3,695	16	3,880	3,657	10.25	0.09E	0.09	0.6	5.1[2]
404	●**Pioneer Electronic**/appliances	3,585	207	2,954	7,090	39.48	1.23	1.26	0.3	12.9
410	**Iwatani Intl Corp**/utilities	3,508[1]	20[1]	2,260[1]	1,724	7.29	0.10E	0.09	0.4	2.0[2]
411	**Yamaha Corp**/leisure-goods	3,494	43	3,439[1]	2,472	12.81	0.22	0.19	0.5	12.6[2]
413	**Tokyu Construction**/construction	3,487	24	3,980	1,724	8.87	0.13	0.10	0.6	6.3
416	**Mitsui OSK Lines Ltd**/shipping	3,485[1]	44[1]	5,638[1]	6,610	6.31	0.04E	0.05	0.4	1.7[2]
417	**Sumitomo Rubber**/industrial comp	3,472	48	3,116	1,591	10.25	0.34	0.31	0.5	4.9[2]
420	■**Nisshin Steel**/metals-steel	3,446[1]	244[1]	6,035[1]	6,576	6.47	0.26E	0.22	0.6	7.1[2]
421	**Sanyo-Kokusaku Pulp**/forest prods	3,446[1]	84[1]	3,209[1]	2,331	5.19	0.16E	0.12	0.9	7.7
426	**Toyota Automatic Loom**[2]/mach & eng	3,407[1]	101[1]	2,354[1]	5,631	20.04	0.44E	0.40	0.4	7.4
432	**Asahi Breweries Ltd**/bev & tobacco	3,363	28	8,206	5,049	12.68	0.09	0.19	0.3	6.9
433	**Isetan**/retailing	3,361E	58E	2,142[1]	5,615	25.62	0.25	0.27	0.3	5.6[2]
434	**Honshu Paper**/forest products	3,360[1]	30[1]	3,751[1]	5,599	16.55	0.09E	0.08	0.2	6.3[2]
436	**Hokkaido Electric** [2]/utilities	3,352[1]	179[1]	10,239[1]	4,624	21.48	0.48E	0.42	1.5	6.5
437	●**TDK**/electronic comp	3,347	162	3,788[1]	5,414	43.16	1.29	1.45	0.6	19.4
439	**Sankyo Co Ltd**/personal care	3,321[1]	110[1]	3,083[1]	6,083	17.01	0.32E	0.34	0.3	6.0[2]
445	**Nichirei**/food, household	3,274[1]	33[1]	1,746[1]	2,349	7.62	0.12E	0.11	0.5	2.5[2]
448	**General Sekiyu Group**/energy	3,257[1]	64[1]	2,259[1]	1,867	9.20	0.28E	0.10	0.0	1.4[2]
449	■**Taisho Marine & Fire**/insurance	3,255[1]	265[1]	26,323[1]	5,252	7.62	0.19E	0.17	0.6	6.9[2]

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The 500 largest foreign companies

Japan

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451	Nagasakiya/retailing	3,250	32	2,430[1]	4,191	28.77	0.22	0.18	0.3	4.9[2]
452	Daido Steel Co Ltd/metals-steel	3,228[1]	58[1]	3,074[1]	2,721	6.39	0.17E	0.15	0.6	7.7[2]
453	Tokyu Dept Stores/retailing	3,213	42	2,285[1]	3,284	11.96	0.16	0.16	0.4	4.6[2]
454	■Shiseido/personal care	3,193	80	3,977[1]	4,426	15.64	0.28	0.35	0.5	3.0[2]
458	Tobishima/construction	3,181[1]	27[1]	5,544[1]	2,707	11.76	0.13E	0.11	0.4	4.3
464	Meiji Milk Prods/food, household	3,134[1]	24[1]	1,320[1]	1,681	5.99	0.08E	0.07	0.7	5.7[2]
469	■Yamazaki Baking/food, household	3,110	72	1,863	2,648	12.02	0.33	0.30	0.5	14.3[2]
473	■Nagoya Railroad/trucking, RR	3,087[1]	55[1]	8,011[1]	5,286	6.96	0.08E	0.07	0.4	8.5[2]
474	Seibu Railway Co Ltd/trucking, RR	3,087[1]	44[1]	4,898[1]	15,656	36.13	0.08E	0.08	0.1	5.3[2]
478	■Onoda Cement/bldg materials	3,072[1]	92[1]	3,892[1]	2,748	5.93	0.19E	0.17	0.6	1.4[2]
479	Itoham Foods/food, household	3,067E	44E	1,699[1]	1,789	7.88	0.20	0.21	0.9	6.6[2]
484	Mitsubishi Petrochem/chemicals	3,011E	189E	4,080[1]	3,942	8.01	0.40E	0.38	0.7	3.0[2]
485	Kandenko Co Ltd[2]/construction	3,011	64	2,236[1]	2,650	25.10	0.61	0.66	0.2	9.0
486	Shin-Etsu Chemical/chemicals	2,976	194	3,548[1]	3,565	11.10	0.60	0.25	0.4	3.4
487	Misawa Homes Co Ltd/construction	2,972	63	2,734[1]	1,941	17.01	0.55	0.52	0.5	1.4[2]
488	Maeda Corp[2]/construction	2,962	47	3,378	2,307	13.47	0.27	0.26	0.4	4.4
491	Hattori Seiko Co Ltd/leisure-goods	2,955	13	2,539[1]	3,503	33.18	0.13	0.12	0.2	8.0
492	•Kyocera/electronic comp	2,948	237	3,949[1]	9,533	52.10	1.29	1.45	0.6	12.4[2]
494	■Alps Electric/electronic comp	2,939[1]	43[1]	2,933[1]	2,588	14.58	0.28E	0.25	0.7	14.2
499	■Omron Corp/elec & electron	2,900[1]	121[1]	2,767[1]	3,943	17.21	0.74E	0.67	0.5	15.6

Netherlands

P/E 9 • Yield 5% • Market value $120 billion • Year to date price change –3%

The Netherlands market sells at the lowest P/E in Europe and has the third-highest dividend yield, after Spain and the U.K. The three largest Dutch firms are international powerhouses well known to U.S. investors. But where are the bargain hunters? In dollar terms the Amsterdam market has underperformed most European stock exchanges so far this year. Mark Edwards, of Rowe Price-Fleming in London, partly blames Dutch laws protecting entrenched managements, which make hostile takeovers virtually impossible.

1989 Rank	Company/business	Revenue ($mil)	Net income ($mil)	Assets ($mil)	Market value ($mil)	Stock price ($)	EPS 1989 ($)	EPS 1990E ($)	Yield (%)	Employees (thou)
7	■Royal Dutch/Shell/energy	85,536	6,483	90,503	66,933[4]	76.40	7.54	7.33	5.2	135.0
21	•Unilever/food, household	31,256	1,532	20,720	22,081[5]	80.80	5.47	6.80	3.1	300.0
29	•Philips Group/appliances	26,972	646	28,708	4,992	18.05	2.34	1.83	5.8	304.8
119	Nationale-Nederlanden/insurance	10,264	459	48,494	5,658	38.36	3.11	3.76	4.1	25.2
146	■Akzo Group/chemicals	8,835	450	7,457	2,759	61.90	10.10	10.93	6.8	70.9
169	■Ahold/retailing	8,051	91	2,215	1,800	75.09	3.98	5.15	1.8	52.2
274	•AEGON Insurance/insurance	5,542	231	29,452	2,712	66.04	5.81	7.00	4.6	9.4
299	NV DSM/chemicals	5,079	488	5,061	2,159	61.49	13.90	13.28	6.8	29.5
317	Schlumberger Ltd/energy	4,686	420	5,482	13,873	58.37	1.77	2.37	0.0	46.0
340	AMEV NV/insurance	4,444	167	15,777	1,861	30.46	2.73	3.28	4.6	10.8
354	Hoogovens Groep/metals-steel	4,249	191	4,959	877	39.51	8.86	7.76	7.6	27.9
463	■Heineken NV/bev & tobacco	3,144	153	3,718	2,151	66.98	4.78	5.67	2.7	29.1
468	•KLM/airlines	3,113	75	4,900[1]	973	18.42	1.42	3.15	5.1	23.6[2]

•Sponsored ADR. ■Not sponsored. All figures except per-share items are in millions of U.S. dollars. General note: Revenue, net income and 1989 EPS are converted at an average rate of exchange for the fiscal year; assets are converted at fiscal year-end rate. Revenue figures are for group or consolidated operations and exclude excise taxes and duties. For companies with January, February or March fiscal year-ends, 1989 figures are used unless noted. Market value is as of May 31, 1990. [1]Figures are latest available. [2]Not fully consolidated. [4]Combined market value for Royal Dutch Petroleum and Shell Transport & Trading. Price, EPS, and yield are only for Royal Dutch Petroleum. [5]Combined market value of Unilever NV & Unilever Plc. Price, EPS and yield are only for Unilever NV. E: Estimate. NA: Not available.

Sources: Morgan Stanley Capital International Perspective; FORBES.
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PORTUGAL

IS HAPPENING NOW

The 500 largest foreign companies

Spain

P/E 12 • Yield 5% • Market value $117 billion • Year to date price change –4%

Inflation and resulting high interest rates have been persistent problems in Spain for the past few years, but Jose A. Cerezo, an analyst at Goldman, Sachs' London office, believes that Spain's inflation has peaked. The current inflation level is 6.8%. In hopes of cooling an overheated economy, the government is trying to limit spending. In local currency, Spain's equity market is down 2% from the end of 1989. But there is considerable optimism about Spain's economic future. Falling interest rates would fan that optimism.

1989 Rank	Company/business	Revenue ($mil)	Net income ($mil)	Assets ($mil)	Market value ($mil)	Stock price ($)	EPS 1989 ($)	EPS 1990E ($)	Yield (%)	Employees (thou)
129	•**Repsol SA**/energy	9,750	544	8,917	7,197	23.99	1.82	2.40	5.1	19.2
139	•**Banco Central Group**/banking	9,282	340	40,512	4,616	46.75	3.44	4.13	4.1	23.8
171	**Banco Bilbao-Vizcaya**/banking	7,988	815	69,987	7,012	30.36	3.36	4.83	4.6	30.9
251	•**Telefonica**/telecomm	6,006	582	24,854	7,215	7.80	0.63	0.77	6.7	71.3
321	•**ENDESA**/utilities	4,638	604	12,129[1]	5,855	22.52	2.32	3.00	4.2	15.8
350	•**Banco Santander**/banking	4,312	394	41,269	4,924	44.75	3.72	4.95	3.9	17.3
374	**Tabacalera**/bev & tobacco	4,004	NA	1,445[1]	1,321	35.87	2.63	3.41	2.7	8.5
390	**CEPSA**/energy	3,825	92	1,831	1,212	20.38	1.77	2.24	4.7	6.7
395	**Banco Hispano Amer**/banking	3,763	291	32,556	2,298	27.41	3.50	4.60	6.9	17.7

Sweden

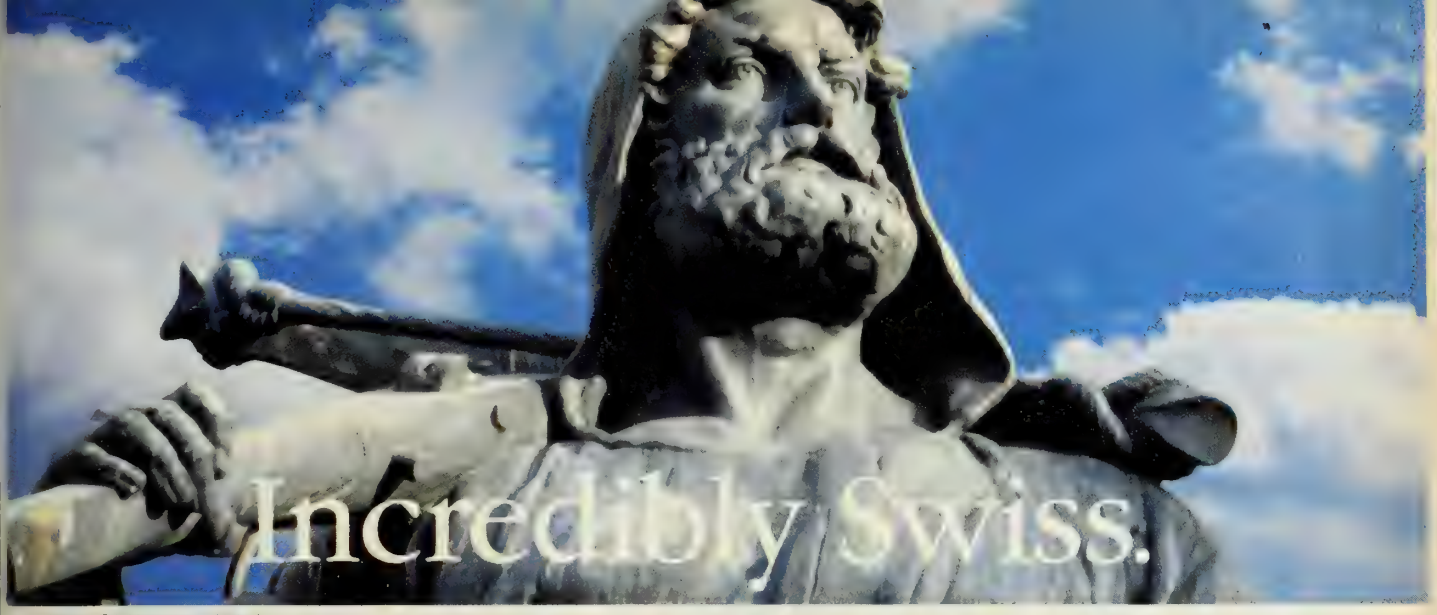
P/E 14 • Yield 2% • Market value $126 billion • Year to date price change 5%

Sweden's small market (capitalization, just $126 billion) has been roiled by international partnerships. Asea, of Sweden, combined with Brown Boveri of Switzerland to form Asea Brown Boveri. Volvo has entered into a partnership with France's Renault Group. And General Motors has acquired a 50% interest in the automotive division of Saab-Scania. With trade barriers coming down, expect other well-known but relatively small Swedish companies to search out strong foreign partners.

1989 Rank	Company/business	Revenue ($mil)	Net income ($mil)	Assets ($mil)	Market value ($mil)	Stock price ($)	EPS 1989 ($)	EPS 1990E ($)	Yield (%)	Employees (thou)
76	•**Volvo Group**/automobiles	14,115	684	15,760	4,374	75.03	8.81	7.19	3.4	78.7
82	•**Electrolux Group**/appliances	13,169	400	10,164	2,892	39.80	5.50	4.94	5.1	152.9
205	**Saab-Scania**/machinery & eng	6,965	171	7,471	3,092	45.67	2.52	4.77	2.8	48.7
225	**Stora Group**/forest products	6,561	295E	8,877	3,199	53.01	5.09	5.81	3.7	53.3
231	**Skand Enskilda Bank**/banking	6,506	361	58,718	3,394	13.21	1.41	1.93	3.7	9.6
246	•**LM Ericsson**/elec & electron	6,127	337	6,560	8,247	201.27	8.20	10.85	1.1	69.2
280	**Svenska Handelsbanken**/banking	5,428	479E	44,218	2,627	19.08	2.99	3.10	3.5	6.7
295	**Nordbanken Group**/banking	5,140	349	50,117	2,439	14.19	2.03	2.20	3.4	5.1
323	**Skanska AB**/construction	4,623	213E	6,000	5,092	83.18	2.99	4.03	0.8	29.5
365	**Trelleborg AB**/industrial comp	4,108	360	4,786	1,779	28.22	5.52	4.41	3.5	26.4
386	•**SKF Group**/industrial comp	3,888	225	4,323	2,929	26.91	2.09	2.69	2.6	46.7
388	**SCA-Svenska Cellulosa**/forest products	3,862	288E	4,992	3,216	19.25	1.69	1.73	2.5	23.7
425	**Nobel Industrier**/aero & defense	3,426	146	4,567	1,439	15.98	1.57	1.73	4.1	22.0
455	**Procordia Group**/multi-industry	3,191	256E	3,125	2,716	24.63	2.30	2.64	1.7	27.8
495	**MoDo Group**/forest products	2,917	0	4,216	1,118	53.82	8.16	6.28	3.6	13.4
496	•**Sandvik AB**/metals-steel	2,916	357	3,625	2,644	48.61	6.57	6.44	2.5	26.9

•Sponsored ADR. ■Not sponsored. All figures except per-share items are in millions of U.S. dollars. General note: Revenue, net income and 1989 EPS are converted at an average rate of exchange for the fiscal year; assets are converted at fiscal year-end rate. Revenue figures are for group or consolidated operations and exclude excise taxes and duties. For companies with January, February or March fiscal year-ends, 1989 figures are used unless noted. Market value is as of May 31, 1990. [1]Figures are latest available. [2]Not fully consolidated. E: Estimate. NA: Not available.

Sources: Morgan Stanley Capital International Perspective; Forbes.
Earnings estimates provided by the International Edition of Institutional Brokers Estimate System (IBES).



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Statue of Liberty, New York

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The 500 largest foreign companies

Switzerland

P/E 15 • Yield 2% • Market value $211 billion • Year to date price change 10%

Thanks to a relatively strong Swiss franc, Swiss stocks rose 8.4% in dollar terms for the five months through May of this year. There is reason for the currency to be strong. Switzerland's inflation rate dropped from a seven-year high of 5% in March, to an annual rate of 4.6% in April. And the number of Swiss workers rose 1.7% in the first quarter of 1990. Swiss stocks are not cheap: The least expensive share in this group is Swiss Bank Corp., at $226 per share. The most expensive is Sandoz Group, which sells for $8,141.

1989 Rank	Company/business	Revenue ($mil)	Net income ($mil)	Assets ($mil)	Market value ($mil)	Stock price ($)	EPS 1989 ($)	EPS 1990E ($)	Yield (%)	Employees (thou)
24	■Nestlé/food, household	29,341	1,473	22,897	22,666	6,306.78	400.38	517.92	2.2	196.9
50	Asea Brown Boveri/elec & electron	20,442	586	24,051	14,099[4]	4,245.28	129.28	283.30	1.0	189.5
87	CIBA-GEIGY Group/chemicals	12,597	952	16,870[3]	11,639	2,375.96	176.05	218.29	1.9	92.6
99	Zurich Insurance/insurance	11,406	218	37,059	5,444	3,319.36	237.57E	297.35	1.3	33.3
152	Swiss Re Group/insurance	8,626[1]	169[1]	23,464[1]	4,382	2,550.66	NA	NA	0.7	20.2
157	Union Bank of Switz/banking	8,292	551	113,870	11,650	2,501.75	124.70	254.53	3.8	21.2
166	Swiss Bank Corp/banking	8,119	458	105,076	7,321	226.42	13.07	27.42	4.3	18.3
178	Winterthur Group/insurance	7,732	159	24,361	3,809	2,858.14	201.66E	254.39	1.6	17.3
180	Sandoz Group/personal care	7,639	586	7,724	10,567	8,141.16	421.17	587.86	1.3	50.7
199	CS Holding/banking	7,115	479	88,926	7,115	1,715.58	126.53	218.88	4.5	17.5
253	Roche Holding/personal care	5,999	520	11,174	13,905	5,485.67	125.92	175.49	0.5	50.2
348	Alusuisse-Lonza/metals nonfer	4,331	284	3,925	1,838	943.40	136.31	140.22	2.2	25.5
368	Jacobs Suchard Group/food, household	4,077	168	3,134	2,929	4,944.10	275.68	364.89	3.0	16.0
384	Sulzer Group/machinery & eng	3,897	67	5,091	1,393	507.34	24.45	NA	1.5	33.9
398	Adia Porteur/services	3,723	123	787[1]	1,941	1,153.04	78.24	91.94	1.7	13.4
460	Swissair Group/airlines	3,174	103	4,328	1,405	751.22	51.50	57.51	3.7	19.3
493	Bâloise Holding/insurance	2,943	73	15,299	1,366	1,530.40	154.35	195.88	1.0	8.7
498	Oerlikon-Bührle/aero & defense	2,903	–25	5,514	1,046	744.23	–16.69	4.76	0.0	27.3

United Kingdom

P/E 12 • Yield 5% • Market value $838 billion • Year to date price change 1%

London's computerized International Stock Exchange trades more shares than any other in Europe. Its trading volume fell slightly in 1989 as the U.K. market was hurt by anxieties over the economy, international interest rates and political uncertainty. After reaching a new high on Jan. 3, 1990, the London market is holding only a 1.5% dollar-denominated gain this year. The U.K. Treasury seems to be moving to make Britain a full member of the European Monetary System; this could reduce the pound's volatility, a plus for London stocks.

1989 Rank	Company/business	Revenue ($mil)	Net income ($mil)	Assets ($mil)	Market value ($mil)	Stock price ($)	EPS 1989 ($)	EPS 1990E ($)	Yield (%)	Employees (thou)
10	•British Petroleum Co/energy	48,602	2,860	50,758	29,495	5.53	0.52	0.44	6.2	119.9
32	•Barclays Plc/banking	25,571	741	204,861	10,631	6.73	0.48	1.15	6.5	116.5
36	•National Westminster/banking	24,067	382	186,559	9,426	5.94	0.25	0.97	6.4	113.0
45	•Imperial Chemical /chemicals	21,595	1,525	18,096	13,997	20.18	2.21	2.11	6.1	133.8
52	•British Telecom/telecomm	19,913	2,440	31,455	29,099	4.81	0.40	0.54	5.5	247.9
54	■B.A.T Industries Plc/bev & tobacco	18,199	1,922	18,552	17,961	12.11	1.20	1.27	5.5	116.6
66	Lloyds Bank Group/banking	15,459	–961	92,380	6,109	4.86	–0.79	0.78	6.1	84.7
67	British Aerospace/aero & defense	14,897	382	14,732	2,327	9.06	1.36	1.27	5.6	127.5
68	Midland Group/banking	14,882	–359	100,311	3,715	4.76	–0.46	0.75	8.5	60.2
83	•Prudential Corp Plc/insurance	13,070	451	62,791	6,876	3.71	0.25	0.25	5.6	40.0
85	•British Gas Plc/utilities	12,908	1,497	19,308[1]	15,534	3.65	0.36	0.46	6.4	80.0
96	•Grand Metropolitan/multi-industry	11,552	859	15,553	10,501	10.33	0.95	1.08	4.0	137.4

•Sponsored ADR. ■Not sponsored. All figures except per-share items are in millions of U.S. dollars. General note: Revenue, net income and 1989 EPS are converted at an average rate of exchange for the fiscal year; assets are converted at fiscal year-end rate. Revenue figures are for group or consolidated operations and exclude excise taxes and duties. For companies with January, February or March fiscal year-ends, 1989 figures are used unless noted. Market value is as of May 31, 1990. [1]Figures are latest available. [2]Not fully consolidated. [3]Based on current cost accounting. [4]Combined market value for Asea AB and Brown Boveri. Price, EPS and yield are only for Brown Boveri. E: Estimate. NA: Not available. *Sources: Morgan Stanley Capital International Perspective; Forbes Earnings estimates provided by the International Edition of Institutional Brokers Estimate System (IBES).*

The 500 largest foreign companies

United Kingdom

1989 Rank	Company/business	Revenue ($mil)	Net income ($mil)	Assets ($mil)	Market value ($mil)	Stock price ($)	EPS 1989 ($)	EPS 1990E ($)	Yield (%)	Employees (thou)
97	•BTR Plc/multi-industry	11,519	1,023	9,705	12,525	7.21	0.59	0.67	4.7	109.5
103	■J Sainsbury Plc/retailing	11,206	507	5,511	7,431	4.90	0.34	0.35	2.8	65.3
115	■General Electric Co/elec & electron	10,400[1]	902[1]	9,484[1]	9,590	3.51	0.36E	0.38	5.2	145.0
141	•Marks & Spencer Plc/retailing	9,068	629	5,673	10,058	3.72	0.24	0.27	3.8	50.9
142	Royal Insurance/insurance	9,004	148	28,390	3,847	7.93	0.31	0.20	7.2	30.0
148	■Tesco Plc/retailing	8,775	413	4,101	6,046	3.88	0.26	0.27	2.5	54.3
150	•Hanson Plc/multi-industry	8,678	1,371	17,593	19,207	4.02	0.35	0.35	5.0	89.0
159	British Steel Corp/metals-steel	8,268	912	9,327[1]	4,813	2.41	0.45	0.37	7.2	55.2
163	Dalgety Plc/food, household	8,161	128	2,352	1,304	5.84	0.58	0.60	6.6	22.5
172	•RTZ Corporation Plc/metals nonfer	7,923	964	11,674	9,391	9.55	1.03	1.01	4.3	77.6
176	•British Airways Plc/airlines	7,823	396	6,353	2,506	3.45	0.55	0.50	5.7	52.1
185	•Peninsular & Oriental/shipping	7,507	430	7,989	4,284	10.45	1.02	1.22	6.3	64.0
191	•Saatchi & Saatchi/services	7,379	–62	1,754	257	1.61	–0.39	Nil	12.5	18.3
201	•SmithKline Beecham/personal care	7,011	780	6,016	11,529	9.02	0.61	0.69	2.1	62.8
214	•Allied-Lyons Plc/bev & tobacco	6,872[1]	575[1]	9,259[1]	5,990	7.97	0.82E	0.86	4.8	81.4
220	Argyll Group Plc/retailing	6,700	264	2,406[1]	3,733	3.96	0.27	0.33	3.7	64.0
224	Sun Alliance Group/insurance	6,572	353	24,229	4,194	5.30	0.44	0.17	5.3	15.1[2]
237	General Accident Fire/insurance	6,297	212	16,612	3,951	18.53	1.07	0.60	6.0	15.7[2]
240	BICC Plc Group/industrial comp	6,218	190	3,079	2,019	7.41	0.75	0.82	5.7	46.0
244	Commercial Union /insurance	6,156	151	25,303	3,450	8.09	0.36	0.19	6.0	20.9
248	■Lonrho Group/multi-industry	6,103	279	5,719	2,620	4.23	0.46	0.43	8.5	102.6
250	•Hillsdown Holdings/food, household	6,047	244	2,845	2,346	4.43	0.52	0.54	3.6	40.6
252	■Ladbroke Group Plc/leisure	6,000	339	7,500	4,497	5.26	0.39	0.47	4.2	51.0
254	Legal & General/insurance	5,980	154	28,032	3,176	6.61	0.33	0.33	5.4	6.9[2]
255	■Thorn Emi Plc/appliances	5,954	328	4,367[1]	3,816	12.28	1.15	1.25	5.1	60.2
263	Standard Chartered/banking	5,749	–57	3,075	1,882	8.04	–0.25	1.32	9.7	28.0
270	■Bass Plc/bev & tobacco	5,619	627	7,609	6,441	18.22	1.83	1.83	3.7	90.1
271	Tarmac Plc/bldg materials	5,591	382	5,160	3,124	4.34	0.52	0.48	5.8	32.1
277	Royal Bk of Scotland/banking	5,485	249	44,595	2,268	3.02	0.49	0.47	5.6	26.5
278	•Trafalgar House Plc/multi-industry	5,460	362	4,107	2,747	5.45	0.73	0.73	7.5	27.8
279	Guardian Royal Exch/insurance	5,437	159	20,371	3,447	4.03	0.18	0.18	6.4	15.0
287	■Tate & Lyle Group/food, household	5,339	191	3,174	1,643	5.22	0.54	0.52	5.3	18.5
307	Rolls-Royce Plc/aero & defense	4,857	315	4,163	3,653	3.75	0.34	0.40	4.2	55.5
308	Inchcape Plc/trading	4,837	163	2,346	1,646	4.65	0.46	0.52	5.3	45.2
310	■Boots Co Plc/retailing	4,784[1]	370[1]	3,769[1]	4,776	4.88	0.41	0.43	4.7	70.0
313	Asda Group Plc/retailing	4,753	295	3,135	2,112	1.81	0.17E	0.18	5.9	31.1
314	Kingfisher Plc/retailing	4,741	376	3,285	2,404	5.47	0.86	0.52	4.7	57.2
316	Pilkington Plc/misc materials	4,714	289	4,409[1]	2,533	3.44	0.40	0.44	6.3	58.4
318	•Cadbury Schweppes/food, household	4,662	266	3,415	4,144	5.72	0.41	0.44	4.2	35.0
320	■Great Universal/retailing	4,653[1]	469[1]	5,827[1]	4,330	17.27	1.88E	1.85	4.2	33.8
334	■Assoc British Foods/food, household	4,487	304	4,084	3,016	6.73	0.68	0.77	3.7	53.0
343	•Glaxo Holdings Plc/personal care	4,409	1,180	5,378	19,643	13.17	0.79	0.90	4.2	28.7
345	■BET Plc/multi-industry	4,366	359	2,693	3,296	4.18	0.47	0.50	6.4	118.1

•Sponsored ADR. ■Not sponsored. All figures except per-share items are in millions of U.S. dollars. General note: Revenue, net income and 1989 EPS are converted at an average rate of exchange for the fiscal year; assets are converted at fiscal year-end rate. Revenue figures are for group or consolidated operations and exclude excise taxes and duties. For companies with January, February or March fiscal year-ends, 1989 figures are used unless noted. Market value is as of May 31, 1990. [1]Figures are latest available. [2]Not fully consolidated. [3]Based on current cost accounting. E: Estimate. NA: Not available

Sources: Morgan Stanley Capital International Perspective; Forbes

Earnings estimates provided by the International Edition of Institutional Brokers Estimate System (IBES).

The 500 largest foreign companies

United Kingdom

1989 Rank	Company/business	Revenue ($mil)	Net income ($mil)	Assets ($mil)	Market value ($mil)	Stock price ($)	EPS 1989 ($)	EPS 1990E ($)	Yield (%)	Employees (thou)
351	**STC Group Plc**/elec & electron	4,275	289	2,888	2,526	4.50	0.52	0.54	5.5	36.3
355	**RMC Group Plc**/bldg materials	4,214	218	2,607	2,255	11.64	1.13	1.16	3.5	25.7
362	•**Booker Plc**/multi-industry	4,116	103	1,337	1,233	7.23	0.61	0.70	6.0	18.8
372	**Trusthouse Forte Plc**/leisure	4,024	331	6,154	3,652	4.66	0.42	0.46	4.6	92.9
378	■**Unigate Group**/food, household	3,945	117	1,610[1]	1,157	5.00	0.52	0.55	7.4	35.2
383	■**BOC Group Plc**/chemicals	3,905	387	4,507	4,365	9.36	0.84	0.89	4.2	37.9
391	**United Biscuits**/food, household	3,804	207	2,236	2,656	5.82	0.48	0.51	5.3	42.5
396	**Cable & Wireless**/telecomm	3,745	700	4,926[1]	9,791	9.14	0.45	0.60	2.0	29.4
406	**Lucas Industries**/industrial comp	3,566	244	2,984[2]	1,879	10.94	1.38	1.40	5.4	56.0
415	•**Guinness Plc**/bev & tobacco	3,486E	721	9,949	11,332	12.90	0.84	0.98	2.7	18.1
418	■**GKN Plc**/machinery & eng	3,467	210	2,829	1,670	6.49	0.82	0.79	6.9	36.7
424	■**Hawker Siddeley**/machinery & eng	3,432	202	3,187	2,196	11.12	1.03	1.16	5.0	41.6
427	■**Sears Plc**/retailing	3,405	272	4,359[1]	2,437	1.62	0.18	0.13	7.4	59.5
428	**George Wimpey Plc**/construction	3,394	143	2,849[1]	1,158	4.04	0.49	0.45	5.8	17.4
430	•**Beazer Plc**/construction	3,380	151	5,514	623	2.21	0.55	0.36	7.8	20.5
431	**Smith (WH) Group Plc**/retailing	3,367	98	1,245	1,143	5.80	0.49E	0.52	4.2	30.8
442	■**Whitbread & Co Plc**/bev & tobacco	3,283[1]	279[1]	5,515[1]	3,213	7.21	0.74E	0.82	4.6	54.2
443	**Lex Service Plc**/services	3,279	60	1,083	410	4.40	0.64	0.58	7.8	8.6
446	**AMEC**/construction	3,268	100	1,557	472	6.69	1.16	0.90	6.3	19.4
447	**Berisford Intl Plc**/trading	3,258	127	2,455	1,073	2.20	0.27	0.25	6.3	6.7
457	■**Racal Electronics**/aero & defense	3,185	189	2,868[1]	4,523	3.49	0.15	0.23	2.1	33.7
466	•**Coats Viyella Plc**/textile,apparel	3,122	132	2,892	1,074	2.05	0.25	0.24	9.8	63.6
472	•**Burton Group**/retailing	3,093	255	2,568	1,732	3.10	0.46	0.38	6.8	37.1
475	•**Dixons Group**/retailing	3,079	94	1,557	888	2.32	0.18E	0.17	4.7	18.5
476	■**Courtaulds Plc**[4]/chemicals	3,079	204	NA	2,244	5.69	0.52E	0.61	4.2	24.4
481	**Harrisons & Crosfield**/misc materials	3,053	150	1,790	1,845	2.70	0.26	0.28	6.9	29.0
483	**Ranks Hovis McDougall**/food, household	3,037	202	3,032	2,031	5.85	0.58	0.56	4.9	39.2

European

1989 Rank	Company/business	Revenue ($mil)	Net income ($mil)	Assets ($mil)	Market value ($mil)	Stock price ($)	EPS 1989 ($)	EPS 1990E ($)	Yield (%)	Employees (thou)
	Austria									
407	**Creditanstalt**/banking	3,557	44	44,662	3,950	485.76	16.85	21.00	1.3	10.9
412	**OMV AG**/energy	3,492	128	3,544	1,759	879.40	56.90E	65.17	1.7	8.7
	Finland									
213	**Kesko Group**/trading	6,882	110	3,459	1,151	12.75	1.22	1.54	3.7	7.7
290	•**Oy Nokia**/multi-industry	5,312	39	5,515	1,375	25.66	1.02	1.74	2.7	41.3
	Norway									
131	•**Norsk Hydro**/energy	9,602	387	9,890	6,495	31.62	1.90	2.32	1.9	32.8

•Sponsored ADR. ■Not sponsored. All figures except per-share items are in millions of U.S. dollars. General note: Revenue, net income and 1989 EPS are converted at an average rate of exchange for the fiscal year; assets are converted at fiscal year-end rate. Revenue figures are for group or consolidated operations and exclude excise taxes and duties. For companies with January, February or March fiscal year-ends, 1989 figures are used unless noted. Market value is as of May 31, 1990. [1]Figures are latest available. [2]Not fully consolidated. [4]Pro forma excluding Courtaulds Textiles. E: Estimate. NA: Not available.

Sources: Morgan Stanley Capital International Perspective; Forbes.
Earnings estimates provided by the International Edition of Institutional Brokers Estimate System (IBES).

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The 500 largest foreign companies

Far East

1989 Rank	Company/business	Revenue ($mil)[1]	Net income ($mil)	Assets ($mil)	Market value ($mil)	Stock price ($)	EPS 1989 ($)	EPS 1990E ($)	Yield (%)	Employees (thou)
	Hong Kong									
408	■Swire Pacific Ltd/multi-industry	3,549	395	7,398	3,958	2.49	0.25	0.28	4.1	28.0
	Korea									
156	Hyundai Corp/trading	8,493	7	331	172	35.90	1.44	1.78	1.6	0.9
196	Ssangyong Group/multi-industry	7,207	173	11,574	3,665	34.91	1.59	5.17	3.1	20.9
235	Bank of Seoul/banking	6,372	90	51,224	2,103	17.52	0.87E	1.07	2.0	9.8
258	Hyundai Motor Co/automobiles	5,870	62	5,517	1,898	35.19	1.16	1.33	1.9	40.3
387	Gold Star Co Ltd/electronic comp	3,872	27	3,384	1,880	30.63	0.46	0.58	0.3	33.0
440	Hyundai Eng & Const/construction	3,313	103	4,609	1,689	40.46	2.47	0.77	0.8	56.0
	New Zealand									
229	●Fletcher Challenge/forest products	6,528	432	8,051	2,680	2.51	0.43	0.33	6.2	37.0
389	■Brierley Investments/multi-industry	3,860	165	5,031	1,977	1.03	0.12	0.13	5.9	33.0

South America

1989 Rank	Company/business	Revenue ($mil)	Net income ($mil)	Assets ($mil)	Market value ($mil)	Stock price ($)	EPS 1989 ($)	EPS 1990E ($)	Yield (%)	Employees (thou)
	Argentina									
204	YPF-Yacimientos Pet/energy	6,975	NA	12,164[3]	NA	NA	NA	NA	0.0	37.0
	Brazil[4]									
40	Banco do Brasil/banking	23,120	97[3]	82,694[3]	598	172.02	33.52	NA	0.8	134.3
71	Banco Bradesco SA/banking	14,491	354[3]	19,454[3]	230	13.72	21.26	NA	10.2	128.8
125	Banco Itaú Group/banking	9,812	248[3]	13,667[3]	259	47.48	45.19	NA	5.5	74.5
128	BANESPA Group/banking	9,765	219[3]	13,218[3]	41	3.49	NA	NA	10.7	37.9
366	Unibanco Group/banking	4,103	73[3]	5,779[3]	103	105.38	61.46	NA	7.8	28.7
423	Petrobrás/energy	3,434	160[3]	13,535[1/3]	2,225	2,103.92	NA	NA	0.0	59.3

Africa

1989 Rank	Company/business	Revenue ($mil)	Net income ($mil)	Assets ($mil)	Market value ($mil)	Stock price ($)	EPS 1989 ($)	EPS 1990E ($)	Yield (%)	Employees (thou)
	South Africa									
126	■Barlow Rand Group/multi-industry	9,800	358	5,935	2,676	14.46	2.13	1.79	4.4	159.8
332	■So African Breweries/bevs & tobacco	4,492	231	3,156	4,043	15.08	0.85	0.98	2.5	91.0

●Sponsored ADR. ■ Not sponsored. All figures except per-share items are in millions of U.S. dollars. General note: Revenue, net income and 1989 EPS are converted at an average rate of exchange for the fiscal year; assets are converted at fiscal year-end rate. Revenue figures are for group or consolidated operations and exclude excise taxes and duties. For companies with January, February or March fiscal year-ends, 1989 figures are used unless noted. Market value is as of May 31, 1990. [1]Figures are latest available. [3]Based on current cost accounting. [4]Revenue, net income, assets and 1989 EPS are converted at Dec. 31, 1989 rate. Stock price and EPS are per 1,000 shares. E: Estimate. NA: Not available.

Sources: Morgan Stanley Capital International Perspective; Forbes. Earnings estimates provided by the International Edition of Institutional Brokers Estimate System (IBES).

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Where to find the Forbes foreign 500

Company/country	Rank	Page
Accor SA/France	467	326
Adia Porteur/Switzerland	398	340
AEGON Insurance Group/Netherlands	274	336
AGF-Assurances Générales de France/France	218	323
Ahold/Netherlands	169	336
Air Canada/Canada	471	323
Aisin Seiki Co Ltd/Japan	325	332
Ajinomoto Co/Japan	375	334
Akzo Group/Netherlands	146	336
Alcan Aluminium Ltd/Canada	145	322
Alitalia/Italy	409	328
All Nippon Airways Co Ltd/Japan	301	332
Allianz Worldwide/Germany	58	326
Allied-Lyons Plc/UK	214	341
Alps Electric/Japan	494	336
Alusuisse-Lonza Holding Ltd/Switzerland	348	340
AMEC/UK	446	342
AMEV NV/Netherlands	340	336
Arbed SA/Belgium	268	322
Argyll Group Plc/UK	220	341
Asahi Breweries Ltd/Japan	432	334
Asahi Chemical Industry Co Ltd/Japan	161	330
Asahi Glass Co Ltd/Japan	173	330
Asda Group Plc/UK	313	341
Asea Brown Boveri Group/Switzerland	50	340
Asko Deutsche Kaufhaus AG/Germany	303	328
Associated British Foods Plc/UK	334	341
Australia & New Zealand Banking Group/Australia	170	320
Baloise Holding Group/Switzerland	493	340
Banco Bilbao-Vizcaya SA/Spain	171	338
Banco Bradesco SA/Brazil	71	344
Banco Central Group/Spain	139	338
Banco do Brasil/Brazil	40	344
Banco Hispano Americano Grupo/Spain	395	338
Banco Itaú Group/Brazil	125	344
Banco Santander Group/Spain	350	338
BANESPA Group/Brazil	128	344
Bank Bruxelles Lambert/Belgium	294	322
Bank of Montreal/Canada	143	322
Bank of Nova Scotia/Canada	195	322
Bank of Seoul/Korea	235	344
Bank of Tokyo Ltd/Japan	74	329
Bank of Yokohama Ltd/Japan	342	334
Banque Nationale de Paris Group/France	46	323
Barclays Plc/UK	32	340
Barlow Rand Group/South Africa	126	344
BASF Group/Germany	33	326
Bass Plc/UK	270	341
Bayer Group/Germany	41	326
Bayerische Hypotheken-und Wechsel-Bank/Germany	256	328

Company/country	Rank	Page
Bayerische Vereinsbank Group/Germany	227	328
BCE Inc/Canada	78	322
Beazer Plc/UK	430	342
Berisford International Plc/UK	447	342
BET Plc/UK	345	341
BICC Plc Group/UK	240	341
BMW-Bayerische Motoren Werke/Germany	77	326
BOC Group Plc/UK	383	342
Bond Corp Holdings Ltd/Australia	209	320
Booker Plc/UK	362	342
Boots Co Plc/UK	310	341
Boral Ltd/Australia	490	320
Bouygues Group/France	193	323
Bridgestone Corp/Japan	88	329
Brierley Investments Ltd/New Zealand	389	344
British Aerospace Plc/UK	67	340
British Airways Plc/UK	176	341
British Gas Plc/UK	85	340
British Petroleum Co Plc/UK	10	340
British Steel Corp/UK	159	341
British Telecommunications Plc/UK	52	340
Broken Hill Proprietary Co Ltd/Australia	154	320
BSN-Groupe/France	182	323
BTR Plc/UK	97	341
Groupe Bull/France	296	323
Burton Group/UK	472	342
B.A.T Industries Plc/UK	54	340
Cable & Wireless Plc/UK	396	342
Cadbury Schweppes Plc/UK	318	341
Campeau Corp/Canada	114	322
Canadian Imperial Bank of Commerce/Canada	135	322
Canadian Pacific Ltd/Canada	138	322
Canon Inc/Japan	127	330
Carrefour Group/France	95	323
Casino Groupe/France	276	323
CEPSA-Cia Española de Petróleos/Spain	390	338
CFAO-Cie Française de l'Afrique/France	306	323
Chargeurs SA/France	482	326
Chori Co Ltd/Japan	286	332
Chubu Electric Power/Japan	90	330
Chugoku Electric Power Co/Japan	238	332
CIBA-GEIGY Group/Switzerland	87	340
CMB Packaging/France	438	326
Co op AG/Germany	223	328
Coats Viyella Plc/UK	466	342
Cockerill Sambre SA/Belgium	311	322
Coles Myer Ltd/Australia	100	320
Commercial Union Assurance Co Plc/UK	244	341
Commerzbank/Germany	160	328
Continental Group/Germany	338	328

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Company/country	Rank	Page
Cosmo Oil Co Ltd/Japan	111	330
Courtaulds Plc/UK	476	342
CRA Limited/Australia	379	320
Crédit Commercial de France Group/France	239	323
Crédit Foncier de France/France	309	323
Crédit Lyonnais Group/France	37	323
Creditanstalt Banking Group/Austria	407	342
Crownx/Canada	465	323
CS Holding/Switzerland	199	340
CSR Group/Australia	414	320
Dai Nippon Printing Co Ltd/Japan	186	330
Daido Steel Co Ltd/Japan	452	336
Daiei Inc/Japan	64	329
Daihatsu Motor Co Ltd/Japan	284	332
Daikyo/Japan	397	334
Daimaru/Japan	262	332
Daimler-Benz Group/Germany	15	326
Dainippon Ink & Chemicals/Japan	269	332
Daiwa Bank Ltd/Japan	228	332
Daiwa House Industry Co Ltd/Japan	344	334
Daiwa Securities Co Ltd/Japan	236	332
Dai-Ichi Kangyo Bank Ltd/Japan	23	329
Dalgety Plc/UK	163	341
Degussa AG/Germany	179	328
Delhaize "Le Lion" Group/Belgium	221	322
Deutsche Bank Group/Germany	63	326
Deutsche Lufthansa AG/Germany	206	328
Dixons Group/UK	475	342
Docks de France/France	394	326
Dofasco/Canada	441	323
Dresdner Bank/Germany	118	328
NV DSM/Netherlands	299	336
Dumez Group/France	335	326
Elders IXL Ltd/Australia	117	320
Electrolux Group/Sweden	82	338
Elf Aquitaine Group/France	39	323
ENDESA/Spain	321	338
Enimont SpA/Italy	104	328
Telefonaktiebolaget LM Ericsson/Sweden	246	338
Euromarché SA/France	392	326
Feldmühle Nobel Group/Germany	302	328
Ferruzzi Group/Italy	89	328
Fiat Group/Italy	18	328
Fletcher Challenge Ltd/New Zealand	229	344
Fuji Bank Ltd/Japan	44	329
Fuji Electric Co Ltd/Japan	283	332
Fuji Heavy Industries Ltd/Japan	322	332
Fuji Photo Film Co Ltd/Japan	210	330
Fujita Corp/Japan	352	334
Fujitsu Ltd/Japan	56	329

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Furukawa Electric Co Ltd/Japan	272	332
GAN-Groupe des Assurances Nationales/France	80	323
General Accident Fire & Life Assurance/UK	237	341
General Electric Co Plc/UK	115	341
General Sekiyu Group/Japan	448	334
Générale Bank Group/Belgium	192	322
Générale des Eaux Groupe/France	65	323
Cie Générale d'Electricité/France	42	323
Generali Group/Italy	94	328
George Weston Ltd/Canada	147	322
GIB Group/Belgium	282	322
GKN Plc/UK	418	342
Glaxo Holdings Plc/UK	343	341
Gold Star Co Ltd/Korea	387	344
Grand Metropolitan Plc/UK	96	340
Great Universal Stores Plc/UK	320	341
Great-West Lifeco/Canada	337	322
GTM-Entrepose/France	435	326
Guardian Royal Exchange Plc/UK	279	341
Guinness Plc/UK	415	342
Hachette SA/France	329	326
Hanson Plc/UK	150	341
Hanwa Co Ltd/Japan	281	332
Harrisons & Crosfield Plc/UK	481	342
Haseko Corp/Japan	400	334
Hattori Seiko Co Ltd/Japan	491	336
HAVAS Group/France	489	326
Hawker Siddeley Group Plc/UK	424	342
Hazama Corp/Japan	376	334
Heineken NV/Netherlands	463	336
Henkel Group/Germany	243	328
Hillsdown Holdings Plc/UK	250	341
Hino Motors Ltd/Japan	305	332
Hitachi Ltd/Japan	9	329
Hochtief AG/Germany	497	328
Hoechst Group/Germany	34	326
Hoesch Group/Germany	267	328
Hokkaido Electric Power/Japan	436	334
Hokkaido Takushoku Bank Ltd/Japan	298	332
Philipp Holzmann AG/Germany	356	328
Honda Motor Co Ltd/Japan	28	329
Honshu Paper Co Ltd/Japan	434	334
Hoogovens Groep/Netherlands	354	336
Hudson's Bay Co/Canada	370	322
Hyundai Corp/Korea	156	344
Hyundai Engineering & Construction Co/Korea	440	344
Hyundai Motor Co/Korea	258	344
Imasco Ltd/Canada	405	323
IMETAL Group/France	450	326
Imperial Chemical Industries Plc/UK	45	340

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Company/country	Rank	Page
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Industrial Bank of Japan Ltd/Japan	55	329
Industrial Equity Ltd/Australia	249	320
Isetan Co Ltd/Japan	433	334
Ishikawajima-Harima Heavy Industries Co/Japan	245	332
Isuzu Motors Ltd/Japan	124	330
C Itoh & Co Ltd/Japan	2	329
Itoham Foods/Japan	479	336
Itoman & Co Ltd/Japan	261	332
Ito-Yokado Co Ltd/Japan	92	330
Iwatani International Corp/Japan	410	334
Jacobs Suchard Group/Switzerland	368	340
Japan Air Lines Co Ltd/Japan	155	330
Jujo Paper Co Ltd/Japan	385	334
Jusco Co Ltd/Japan	133	330
Kajima Corp/Japan	107	330
Kandenko Co Ltd/Japan	485	336
Kanebo Ltd/Japan	327	332
Kanematsu Corp/Japan	17	329
Kansai Electric Power Co/Japan	70	329
Kao Corp/Japan	346	334
Karstadt Group/Germany	211	328
Kaufhof Group/Germany	208	328
Kawasaki Heavy Industries Ltd/Japan	216	332
Kawasaki Steel Corp/Japan	144	330
Kawasho Corp/Japan	106	330
Kesko Group/Finland	213	342
Kingfisher Plc/UK	314	341
Kinki Nippon Railway Co Ltd/Japan	265	332
Kirin Brewery Co Ltd/Japan	326	332
KLM Royal Dutch Airlines/Netherlands	468	336
Kobe Steel Ltd/Japan	130	330
Komatsu Ltd/Japan	241	332
Konica/Japan	401	334
Kredietbank NV/Belgium	328	322
Kubota Ltd/Japan	264	332
Kumagai Gumi Co Ltd/Japan	174	330
Kyocera Corp/Japan	492	336
Kyowa Bank Ltd/Japan	233	332
Kyushu Electric Power/Japan	167	330
L'Aire Liquide Group/France	341	326
L'Oréal Group/France	353	326
John Labatt/Canada	373	322
Ladbroke Group Plc/UK	252	341
Lafarge Coppée/France	312	323
Legal & General Group/UK	254	341
Lex Service Plc/UK	443	342
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Lucas Industries Plc/UK	406	342
LVMH/France	477	326
Lyonnaise des Eaux Group/France	429	326
M A N Group/Germany	140	328
Maeda Corp/Japan	488	336
Mannesmann Group/Germany	91	326
Marks & Spencer Plc/UK	141	341
Marubeni Corp/Japan	4	329
Marui/Japan	364	334
MATRA/France	419	326
Matsushita Electric Industrial Co/Japan	14	329
Matsushita Electric Works/Japan	226	332
Matsuzakaya Co Ltd/Japan	393	334
Mazda Motor Corp/Japan	60	329
Meiji Milk Products Co Ltd/Japan	464	336
Metallgesellschaft AG/Germany	110	326
Michelin Group/France	151	323
Midland Group/UK	68	340
Misawa Homes Co Ltd/Japan	487	336
Mitsubishi Bank Ltd/Japan	27	329
Mitsubishi Corp/Japan	5	329
Mitsubishi Electric Corp/Japan	48	329
Mitsubishi Heavy Industries Ltd/Japan	62	329
Mitsubishi Kasei Corp/Japan	165	330
Mitsubishi Metal Corp/Japan	275	332
Mitsubishi Motors Corp/Japan	57	329
Mitsubishi Oil Co Ltd/Japan	288	332
Mitsubishi Petrochemical Co Ltd/Japan	484	336
Mitsubishi Trust & Banking Corp/Japan	108	330
Mitsui OSK Lines Ltd/Japan	416	334
Mitsui Real Estate Development Co Ltd/Japan	188	330
Mitsui Taiyo Kobe Bank Ltd/Japan	69	329
Mitsui Toatsu Chemicals/Japan	399	334
Mitsui Trust & Banking Co Ltd/Japan	112	330
Mitsui & Co Ltd/Japan	3	329
Mitsukoshi Ltd/Japan	200	330
MoDo Group/Sweden	495	338
Münchener Rückversicherungs/Germany	207	328
Nagasakiya Co Ltd/Japan	451	336
Nagase & Co Ltd/Japan	380	334
Nagoya Railroad Co Ltd/Japan	473	336
National Australia Bank Group/Australia	187	320
National Bank of Canada/Canada	461	323
National Westminster Bank Plc/UK	36	340
Nationale-Nederlanden/Netherlands	119	336
NEC Corp/Japan	35	329
Nestlé/Switzerland	24	340
News Corp Ltd/Australia	232	320

High Wire Performance

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Where to find the Forbes foreign 500

Company/country	Rank	Page
Nichii Co Ltd/Japan	175	330
Nichimen Corp/Japan	12	329
Nichirei Corp/Japan	445	334
Nippon Credit Bank Ltd/Japan	184	330
Nippon Express Co Ltd/Japan	132	330
Nippon Light Metal Co Ltd/Japan	363	334
Nippon Meat Packers/Japan	324	332
Nippon Mining Co Ltd/Japan	219	332
Nippon Oil Co Ltd/Japan	75	329
Nippon Steel Corp/Japan	49	329
Nippon Suisan Kaisha Ltd/Japan	359	334
Nippon Telegraph & Telephone Corp/Japan	13	329
Nippon Yusen KK/Japan	300	332
Nippondenso Co Ltd/Japan	136	330
Nissan Motor Co Ltd/Japan	16	329
Nisshin Steel Co Ltd/Japan	420	334
Nissho Iwai Corp/Japan	6	329
NKK Corp/Japan	109	330
Nobel Industrier AB/Sweden	425	338
Nokia/Finland	290	342
Nomura Securities Co Ltd/Japan	162	330
Noranda/Canada	177	322
Nordbanken Group/Sweden	295	338
Norsk Hydro a s/Norway	131	342
Nova Corp of Alberta/Canada	367	322
OCP-Office Commercial Pharmaceutique/France	403	326
Oerlikon-Bührle Group/Switzerland	498	340
Ohbayashi Corp/Japan	189	330
Oji Paper Co Ltd/Japan	333	334
Oki Electric Industry Co Ltd/Japan	347	334
Olivetti Group/Italy	222	328
Omron Corp/Japan	499	336
OMV AG/Austria	412	342
Onoda Cement Co Ltd/Japan	478	336
Osaka Gas Co Ltd/Japan	319	332
Oshawa Group Ltd/Canada	357	322
Pacific Dunlop Ltd/Australia	402	320
Paribas Group/France	72	323
Pechiney Group/France	79	323
Peninsular & Oriental Steam Navigation/UK	185	341
Petrobrás-Petróleo Brasileiro SA/Brazil	423	344
Petrofina SA/Belgium	102	322
Peugeot Groupe SA/France	38	323
Philips Group/Netherlands	29	336
Pilkington Plc/UK	316	341
Pioneer Electronic Corp/Japan	404	334
Pioneer International Group/Australia	462	320
Pirelli SpA/Italy	202	328
Preussag Group/Germany	149	328
Groupe Printemps/France	339	326

Company/country	Rank	Page
Procordia Group/Sweden	455	338
Promodès Group/France	164	323
Provigo Inc/Canada	293	322
Prudential Corp Plc/UK	83	340
Racal Electronics/UK	457	342
Ranks Hovis McDougall Plc/UK	483	342
Repsol SA/Spain	129	338
Rhône-Poulenc Group/France	98	323
Ricoh Co Ltd/Japan	259	332
RMC Group Plc/UK	355	342
Roche Holding/Switzerland	253	340
Rolls-Royce Plc/UK	307	341
Royal Bank of Canada/Canada	105	322
Royal Bank of Scotland Group Plc/UK	277	341
Royal Dutch/Shell Group/Netherlands	7	336
Royal Insurance Holdings Plc/UK	142	341
Royal Trustco Ltd/Canada	459	323
RTZ Corporation Plc/UK	172	341
RWE Group/Germany	47	326
Saab-Scania Group/Sweden	205	338
Saatchi & Saatchi Plc/UK	191	341
SAE-Société Auxiliaire d'Entreprises/France	369	326
J Sainsbury Plc/UK	103	341
Saint-Gobain Group/France	116	323
Saitama Bank Ltd/Japan	242	332
Sandoz Group/Switzerland	180	340
Sandvik AB/Sweden	496	338
Sankyo Co Ltd/Japan	439	334
Sanwa Bank Ltd/Japan	26	329
Sanyo Electric Co Ltd/Japan	123	330
Sanyo-Kokusaku Pulp Co/Japan	421	334
Schering Group/Germany	470	328
Schlumberger Ltd/Netherlands Antilles	317	336
Schneider SA/France	183	323
Seagram Co Ltd/Canada	330	322
Sears Plc/UK	427	342
Seibu Railway Co Ltd/Japan	474	336
Seiyu Ltd/Japan	158	330
Sekisui Chemical Ltd/Japan	304	332
Sekisui House Ltd/Japan	234	332
Sharp Corp/Japan	137	330
Shimizu Corp/Japan	122	330
Shinsho Corp/Japan	371	334
Shin-Etsu Chemical/Japan	486	336
Shiseido Co Ltd/Japan	454	336
Showa Denko KK/Japan	361	334
Showa Shell Sekiyu KK/Japan	120	330
Siemens Group/Germany	20	326
Skandinaviska Enskilda Bank Group/Sweden	231	338
Skanska AB/Sweden	323	338

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Where to find the Forbes foreign 500

Company/country	Rank	Page
SKF Group/Sweden	386	338
SME-Soc Meridionale Finanziaria/Italy	422	328
Smith (WH) Group Plc/UK	431	342
SmithKline Beecham Plc/UK	201	341
Snow Brand Milk Products Co Ltd/Japan	197	330
Société Générale Group/France	61	323
Solvay Group/Belgium	230	322
Sony Corp/Japan	51	329
South African Breweries Ltd/South Africa	332	344
Ssangyong Group/Korea	196	344
Standard Chartered Group/UK	263	341
STC Group Plc/UK	351	342
STET Group/Italy	84	328
Stora Group/Sweden	225	338
Suez Group/France	43	323
Sulzer Group/Switzerland	384	340
Sumitomo Bank Ltd/Japan	30	329
Sumitomo Chemical Co Ltd/Japan	217	332
Sumitomo Corp/Japan	1	329
Sumitomo Electric Industries Ltd/Japan	203	330
Sumitomo Metal Industries Ltd/Japan	134	330
Sumitomo Metal Mining Co Ltd/Japan	382	334
Sumitomo Rubber Industries/Japan	417	334
Sumitomo Trust & Banking Co Ltd/Japan	101	330
Sun Alliance Group Plc/UK	224	341
Suzuki Motor Co Ltd/Japan	212	332
SCA-Svenska Cellulosa AB/Sweden	388	338
Svenska Handelsbanken/Sweden	280	338
Swire Pacific Ltd/Hong Kong	408	344
Swiss Bank Corp/Switzerland	166	340
Swiss Re Group/Switzerland	152	340
Swissair Group/Switzerland	460	340
Tabacalera/Spain	374	338
Taisei Corp/Japan	93	330
Taisho Marine & Fire Insurance Co Ltd/Japan	449	334
Taiyo Fishery Co Ltd/Japan	181	330
Takashimaya Co Ltd/Japan	194	330
Takeda Chemical Industries Ltd/Japan	285	332
Tarmac Plc/UK	271	341
Tate & Lyle Group/UK	287	341
TDK/Japan	437	334
Teijin Ltd/Japan	349	334
Telefónica/Spain	251	338
Tesco Plc/UK	148	341
Thomson Corp/Canada	297	322
Thomson CSF SA/France	291	323
Thorn EMI Plc/UK	255	341
Thyssen Group/Germany	53	326
TNT Ltd/Australia	456	320
Tobishima/Japan	458	336

Company/country	Rank	Page
Toda Construction Co Ltd/Japan	358	334
Tohoku Electric Power Co/Japan	168	330
Tokai Bank Ltd/Japan	73	329
Tokio Marine & Fire Insurance Co Ltd/Japan	215	332
Tokyo Electric Power Co/Japan	25	329
Tokyo Gas Co Ltd/Japan	266	332
Tokyu Construction Co Ltd/Japan	413	334
Tokyu Department Stores/Japan	453	336
Tonen Corp/Japan	315	332
Toppan Printing Co Ltd/Japan	198	330
Toray Industries/Japan	257	332
Toronto-Dominion Bank/Canada	247	322
Toshiba Corp/Japan	22	329
Toshoku Ltd/Japan	289	332
TOTAL Group-Française des Pétroles/France	59	323
Toyo Menka Kaisha Ltd/Japan	11	329
Toyo Seikan Kaisha Ltd/Japan	292	332
Toyo Trust & Banking Co Ltd/Japan	190	330
Toyobo Co Ltd/Japan	381	334
Toyota Automatic Loom Works Ltd/Japan	426	334
Toyota Motor Corp/Japan	8	329
Toyota Tsusho Corp/Japan	81	329
Trafalgar House Plc/UK	278	341
Trelleborg AB/Sweden	365	338
Trusthouse Forte Plc/UK	372	342
UAP-Union des Assurances de Paris/France	121	323
Ube Industries Ltd/Japan	331	334
Unibanco Group/Brazil	366	344
Unigate Group/UK	378	342
Unilever/Netherlands	21	336
Union Bank of Switzerland/Switzerland	157	340
United Biscuits (Holdings) Plc/UK	391	342
Uny Co Ltd/Japan	336	334
Valeo Group/France	480	326
VEBA Group/Germany	31	326
VEW-Vereinigte Elektrizitätswerke Westfa/Germany	444	328
VIAG Group/Germany	273	328
Volkswagen Group/Germany	19	326
Volvo Group/Sweden	76	338
Westpac Banking Group/Australia	113	320
Whitbread & Co Plc/UK	442	342
George Wimpey Plc/UK	428	342
Winterthur Group/Switzerland	178	340
YPF-Yacimientos Petrolíferos Fiscales/Argentina	204	344
Yamaha Corp/Japan	411	334
Yamaha Motor Co Ltd/Japan	360	334
Yamazaki Baking Co Ltd/Japan	469	336
Yasuda Fire & Marine Insurance Co Ltd/Japan	260	332
Yasuda Trust & Banking Co Ltd/Japan	153	330
Zurich Insurance Group/Switzerland	99	340

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Foreign investors bought fewer U.S. assets last year

Is foreign money taking over the U.S. economy? Of course not. Has foreign buying here peaked? Perhaps: The U.S. Department of Commerce reports that net capital inflow from foreigners into the U.S. during 1989 was $215 billion, slightly below 1988's record $219 billion. Foreign purchases of U.S. financial assets, mainly U.S. Treasury obligations, are also slowing down.

In terms of investments in plant and equipment, *Mergers & Acquisitions* magazine reports that last year foreigners spent $53 billion, acquiring a total of 521 U.S. companies. That's a lot of money, but the figure is down from $62 billion in 1988.

Who's doing the buying? Overall the British were the most acquisitive foreigners during 1989. U.K. companies spent $24 billion merging with or acquiring 158 U.S. corporations, including SmithKline Beckman (combined with Beecham in an $8 billion deal) and Pillsbury Co. (acquired by Grand Metropolitan for almost $6 billion). Japan came in second with 81 takeovers, valued at about $9 billion. The biggest single buyout by the Japanese was the $3.4 billion paid by Sony to grab Columbia Pictures Entertainment.

Among the new entries to the list this year is ABB Asea Brown Boveri, the big electrical engineering firm, which is equally owned by ASEA AB of Sweden and BBC Brown Boveri of Switzerland. Last December the company bought Combustion Engineering for $1.6 billion. No longer on the list is Belgium's Groupe Bruxelles Lambert; its U.S. arm, Drexel Burnham Lambert, filed for bankruptcy earlier this year.

The figures below are from the companies' most recent annual reports, the majority from December 1989. Revenue, net income and assets represent the results of a company's entire U.S. operation, and not the proportional interest the parent may have in it. In general, foreign companies with at least a 20% equity interest in a U.S. subsidiary are listed in our report, provided the subsidiary's revenues are large enough (the cutoff is $1.4 billion).

The table also includes foreign firms that have an indirect ownership of a U.S. subsidiary as a result of controlling at least 20% of another foreign company. Such indirect investments are indicated in italics. For example, Hardee's Food Systems, Peoples Drug Stores and Roy Rogers are all subsidiaries of Imasco Ltd. of Canada, yet they are listed under England's B.A.T Industries. Why? Because B.A.T owns 40% of Imasco.

Rank	Foreign investor	Country	US investment	% owned	Industry	Revenue ($mil)	Net income ($mil)	Assets ($mil)
1	**Seagram Co Ltd***	Canada	EI du Pont de Nemours*	24	chemicals, energy	35,534	2,480.0	34,715
			Joseph E Seagram & Sons	100	beverages	3,404	560.9	8,069
						38,938		
2	**Royal Dutch/Shell Group***	Netherlands/UK	Shell Oil	100	energy, chemicals	21,703	1,405.0	27,599
3	**British Petroleum Plc***	UK	BP America	100	energy	16,566	NA	20,438
4	**B.A.T Industries Plc***	UK	BATUS	100	multicompany			
			Farmers Group	100	insurance	7,093	NA	3,495
	Imasco Ltd	Canada	Hardee's Food Systems	100	fast food	3,503	NA	NA
			Peoples Drug Stores	100	drugstores	1,020	NA	NA
			Roy Rogers	100	fast food	648	NA	NA
						12,264		
5	**Grand Metropolitan Ltd***	UK	Burger King	100	fast food	5,700	NA	NA
			Grand Metropolitan USA	100	beverages, retailing	3,705	NA	NA
			Pillsbury	100	food processors	2,400	NA	NA
						11,805		
6	**Tengelmann Group**	Germany	Great A&P Tea*	53	supermarkets	11,148	146.7	2,832
7	**Campeau**	Canada	Federated Dept Stores	100	retailing	4,867	–1,503.9	6,600
			Allied Stores	100	retailing	2,706	–925.2	3,000
			Ralphs Grocery	100	supermarkets	2,556	–69.7	1,405
						10,129		
8	**Unilever NV***	Netherlands	Unilever United States	100	food proc, pers prods	8,113	138.0	9,379
	Unilever Plc*	UK						

*Publicly traded in the U.S. in shares or ADRs. Note: Some foreign investors on the list own U.S. companies indirectly through companies in italics. E: Estimate. NA: Not available.

In 1860, when Willie Park, Sr. won the first British Open, Allendale had been a loss control champion for 25 years.

Prestwick, Scotland. Thirty-six holes in one day. 174 strokes. Few people thought he had the stamina. But as he approached the 18th green, they knew history was in the making. And when Willie Park, Sr. became the first person to win The British Open, Allendale Insurance had already been a leader in property coverage and loss control engineering for more than two decades.

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The 100 largest foreign investments in the U.S.

Rank	Foreign investor	Country	US investment	% owned	Industry	Revenue ($mil)	Net income ($mil)	Assets ($mil)
9	**Nestlé SA***	Switzerland	Nestlé Enterprises	100	food processing	4,339	NA	NA
			Carnation	100	food	2,630	NA	NA
			Alcon Laboratories	100	optical products	800E	NA	NA
						7,769		
10	**Hanson Plc***	UK	Hanson Industries	100	multicompany	5,757	760.8	5,811
	Consolidated Gold	UK	Newmont Mining*	49	mining	582	125.9	1,302
	Fields Plc		Smith Corona*	48	office supplies	493	54.4	NA
						6,832		
11	**ASEA AB**	Sweden						
	BBC Brown Boveri	Switzerland						
	ABB Asea Brown Boveri	Switzerland	Asea Brown Boveri	100	power generation	3,251	NA	NA
			Combustion Engineering	100	power generation	3,500	NA	2,413
						6,751		
12	**Petróleos de Venezuela, SA**	Venezuela	Citgo Petroleum	100	refining, marketing	4,941	161.0	1,587
			Champlin Refining	100	refining, marketing	1,800	41.1	490
						6,741		
13	**Philips NV***	Netherlands	North American Philips	100	electronics	6,203	–178.0	3,879
14	**Hoechst AG***	Germany	Hoechst Celanese	100	chemicals	6,016	267.0	6,062
15	**Sony Corp***	Japan	CBS Records	100	records	2,899	NA	NA
			Columbia Pictures	100	movies	1,637	21.0	3,709
			Sony (US)	100	consumer electronics	1,400E	NA	NA
						5,936		
16	**Pechiney**	France	American National Can	100	packaging	4,277	NA	NA
			Howmet	100	gas turbines	874	NA	NA
			Other companies	100	aluminum	509	NA	NA
						5,660		
17	**Bayer AG***	Germany	Mobay	100	chemicals	2,150	121.6	1,595
			Miles	100	health care	2,125	59.6	2,041
			Agfa	100	photography	947	0.6	733
			Other companies	100	chemicals	203	NA	193
						5,425		
18	**BASF Group***	Germany	BASF	100	chemicals	5,422	90.0	3,594
19	**Franz Haniel & Cie**	Germany	Scrivner	100	food distribution	3,252	NA	NA
			Gateway Foods	100	food distribution	2,000	NA	NA
						5,252		
20	**Imperial Chemical Industries Plc***	UK	ICI Americas	100	chemicals, drugs, paint	5,000	NA	NA
21	**IFINT SA**	Luxembourg	Fund American Cos*	22	insurance	3,490	73.0	11,720
			Lear Seating	29	auto parts	1,015	NA	NA
			Moog Automotive	100	auto parts	450	NA	NA
						4,955		
22	**Brascan Ltd***	Canada						
	Noranda	Canada	Noranda US	100	minerals, forest prods	3,144	NA	2,229
	John Labatt Ltd	Canada	Johanna Dairies	100	dairy, juice products	1,677	NA	NA
			Other companies	100	package foods,brewing			
						4,821		
23	**Delhaize "Le Lion" SA**	Belgium	Food Lion*	44	supermarkets	4,717	139.8	1,282
24	**Ferruzzi Group**	Italy	Central Soya	100	food processor	2,319	15.1	789
	Montedison Group*	Italy	Himont	100	chemicals	1,800	NA	NA
			Erbamont	100	pharmaceuticals	165	NA	166
			Other companies	100	chemicals	153	NA	NA
						4,437		
25	**Vendex International**	Netherlands	Dillard Dept Stores*	35	retailing	3,049	148.1	2,496
			Barnes & Noble	30	retailing	1,300	NA	NA
			B Dalton	50	retailing			
						4,349		
26	**Electrolux AB***	Sweden	White Consolidated	100	appliances	4,300	NA	3,100

*Publicly traded in the U.S. in shares or ADRs. Note: Some foreign investors on the list own U.S. companies indirectly through companies in italics. E: Estimate. NA: Not available.

The 100 largest foreign investments in the U.S.

Rank	Foreign investor	Country	US investment	% owned	Industry	Revenue ($mil)	Net income ($mil)	Assets ($mil)
27	**BCE***	Canada						
	Northern Telecom Ltd*	Canada	Northern Telecom	100	telecommunications	3,781	NA	3,084
	Trans Canada Pipeline*	Canada	Great Lakes Gas Trans	50	gas transmission	245	30.0	NA
			Northern Border Pipeline	30	gas transmission	231	NA	NA
						4,257		
28	**Honda Motor Company Ltd***	Japan	Honda of America Mfg	100	automotive	4,200E	NA	NA
29	**Fujitsu Ltd***	Japan	Amdahl*	44	electronics	2,101	152.9	2,234
			Fujitsu America	100	electronics	1,500	NA	NA
			Fujitsu Microelectronics	100	electronics	545	–75.0	390
						4,146		
30	**Bridgestone***	Japan	Bridgestone/Firestone	100	tire & rubber	3,500E	NA	NA
			Bridgestone USA	100	tire & rubber	600E	NA	NA
						4,100		
31	**Ahold NV***	Netherlands	First National Supermkts	86	supermarkets	1,837	NA	NA
			BI-LO	100	supermarkets	1,430	NA	NA
			Giant Food Stores	100	supermarkets	790	NA	NA
						4,057		
32	**Toyota Motor Corp***	Japan	New United Motor Mfg	50	automotive	1,700E	NA	NA
			Toyota Motor Mfg	100	automotive	1,800E	NA	NA
	Nippondenso Co Ltd*	Japan	Nippondenso America	100	auto parts	556	NA	NA
						4,056		
33	**Anglo Amer of S Africa***	South Africa						
	Minorco*	Luxembourg	Engelhard*	30	metals	2,403	–77.5	1,340
			Inspiration Resources*	56	agricultural, mining	1,373	25.2	915
						3,776		
34	**CIBA-GEIGY Ltd**	Switzerland	CIBA-GEIGY	100	chemicals, drugs	3,732	NA	3,085
35	**Volvo AB***	Sweden	Hertz Corporation	26	car rental	2,253	65.1	3,669
			Volvo GM Heavy Truck	76	automotive	1,154	NA	NA
			VME Americas	50	automotive	318	NA	NA
						3,725		
36	**CS Holding**	Switzerland	First Boston	100	investment banking	3,654[1]	NA	NA
37	**Siemens AG***	Germany	Siemens Corporation	100	electronics	3,560	–306.0	3,400
38	**Compagnies des Machines Bull***	France	Bull HN Information Sys	72	information systems	2,151	1.1	NA
			Zenith Data Systems	100	information systems	1,400E	NA	NA
						3,551		
39	**SmithKline Beecham Plc***	UK	SmithKline Beecham (US)	100	drugs, consumer prods	3,244	NA	2,602
40	**Hongkong & Shanghai Banking Corp***	Hong Kong	Marine Midland Banks	100	banking	3,168	–1.1	27,067
41	**RTZ Plc**	UK	US Borax & Chemical	100	mining, borax			
			US Silica	100	sand, clays	2,266	454.0	2,516
			Kennecott	100	mining			
	Rio Algom Ltd*	Canada	Rio Algom Inc	100	metals, mining	430	NA	NA
	RTZ Pillar Ltd	UK	Indal US	100	building products	464	NA	301
						3,160		
42	**Alcan Aluminium Ltd***	Canada	Alcan Aluminum	100	aluminum	3,073	15.0	1,545
43	**News Corporation Ltd***	Australia	News America	100	media, publishing	3,055	NA	7,382
44	**BTR Plc***	UK	BTR Dunlop	100	construction, controls	3,043	NA	NA
45	**Petrofina SA**	Belgium	American Petrofina*	86	energy	3,036	96.2	2,505
46	**Carrefour**	France	Costco Wholesale*	20	retailing	3,000	27.0	624
47	**Jefferson Smurfit Group Plc**	Ireland						
	Smurfit International BV	Netherlands	Jefferson Smurfit	50	paper, packaging	2,936	36.0	2,437
			Container Corp of Am	50	paper, packaging			
48	**Zurich Insurance Group**	Switzerland	Zurich Insurance Grp US	100	insurance	2,884[2]	69.4	7,332
49	**Thomson SA***	France	Thomson Consumer Elec	100	consumer electronics	2,877	NA	1,226
50	**Dalgety Plc**	UK	Martin-Brower	100	food distribution	2,850E	NA	NA
			Modern Maid Food	100	food products			

*Publicly traded in the U.S. in shares or ADRs. Note: Some foreign investors on the list own U.S. companies indirectly through companies in italics. [1]For 12 months ended September 1988. [2]Includes seven months from Maryland Casualty, acquired in May 1989. E: Estimate. NA: Not available.

The 100 largest foreign investments in the U.S.

Rank	Foreign investor	Country	US investment	% owned	Industry	Revenue ($mil)	Net income ($mil)	Assets ($mil)
51	**Manufacturers Life Insurance**	Canada	Manufacturers Life Ins US	100	insurance	2,800E	NA	NA
52	**Prudential Corporation Plc***	UK	Jackson National Life	100	insurance	2,732	87.8	7,829
53	**NKK Corp***	Japan	National Steel	70	steel	2,577	60.2	1,807
			Int'l Light Metals	40	aluminum, titanium	136	3.0	173
						2,713		
54	**Rhône-Poulenc Group***	France	Rhône-Poulenc	100	chemicals	1,520	NA	2,900
			Rorer Group*	52	pharmaceuticals	1,182	86.5	1,792
						2,702		
55	**Elf Aquitaine Group**	France	Elf Aquitaine, Inc	100	oil & gas, chemicals	2,699	NA	4,515
56	**Henkel KGaA**	Germany	Clorox*	28	household products	1,356	124.1	1,213
			Henkel of America	100	chemicals	885	NA	NA
			Loctite*	26	chemicals	456	54.5	362
						2,697		
57	**Edmund J Safra**	Switzerland						
	Saban SA	Switzerland	Republic NY*	32	banking	2,575	24.0	25,467
58	**Royal Insurance Holdings Plc**	UK	Royal USA	100	insurance	2,553	–35.0	5,348
59	**Mazda Motor**	Japan	Mazda Motor Mfg USA	100	automotive	2,500E	NA	NA
60	**Power Corp of Canada**	Canada						
	Great-West Lifeco	Canada	Great-West Life Assur	99	insurance	2,446	NA	9,523
61	**Broken Hill Proprietary***	Australia	Pacific Resources	100	energy	900E	NA	NA
			BHP Petroleum (Americas)	100	energy	800E[3]	NA	NA
			BHP-Utah Minerals	100	mining	500E[3]	NA	NA
			Hamilton Oil*	51	energy	208	14.7	761
						2,408		
62	**Total CFP**	France	Total Petroleum NA*	51	energy	2,171	48.2	1,156
			Total Minatome	100	oil & gas	200	NA	NA
						2,371		
63	**Bank of Tokyo Ltd***	Japan	Union Bank*	77	banking	1,650	138.9	15,376
			Bank of Tokyo Trust	100	banking	719	24.8	8,200
						2,369		
64	**Daimler-Benz Group**	Germany	Freightliner	100	automotive	1,764	NA	NA
	AEG AG	Germany	AEG	100	elec equip, electronics	600	NA	NA
			Other companies	100	elec equip, computers			
						2,364		
65	**Maxwell Communications**	UK	Macmillan	100	publishing			
			Maxwell Communications	100	publishing, printing	2,329	NA	NA
			Official Airline Guides	100	publishing			
			Macmillan McGraw-Hill	50	school publishing			
66	**Dainippon Ink & Chemicals**	Japan	Sun Chemical	100	printing, chemicals	1,000E	NA	NA
			Reichhold Chemicals	100	chemicals	990E	NA	NA
			Polychrome	100	printing	266	7.0	256
						2,256		
67	**Bertelsmann AG**	Germany	Bertelsmann USA	100	printing, publishing	2,250E	NA	NA
68	**National Westminster Bank Plc***	UK	National Westminster Bc	100	banking	2,201	–139.5	21,773
69	**AEGON NV***	Netherlands	AEGON USA	100	insurance	2,132	94.8	7,700
70	**Sandoz Ltd**	Switzerland	Sandoz United States	100	chemicals, drugs	2,125	NA	NA
71	**Nissan Motor Co Ltd***	Japan	Nissan Motor Mfg USA	100	automotive	2,100E	NA	NA
72	**General Electric Plc***	UK	Picker International	100	medical equipment			
			AB Dick	100	office equipment	2,075	NA	NA
			Other companies	100	elec sys, components			
73	**SNECMA**	France	CFM International	50	aviation	2,064	2.8	1,008
74	**Tate & Lyle Plc***	UK	A E Staley Manufacturing	90	food distr, processors	1,100	NA	NA
			Pacific Molasses	100	molasses, animal feeds			
			Western Sugar	100	sugar refining	940	NA	NA
			Other companies	100	sugar processing			
						2,040		

*Publicly traded in the U.S. in shares or ADRs. Note: Some foreign investors on the list own U.S. companies indirectly through companies in italics. [3]Includes Canadian revenues. E: Estimate. NA: Not available.

The 100 largest foreign investments in the U.S.

Rank	Foreign investor	Country	US investment	% owned	Industry	Revenue ($mil)	Net income ($mil)	Assets ($mil)
75	**Nationale-Nederlanden NV**	Netherlands	Nationale-Nederlanden US	100	insurance	2,023	63.3	5,937
76	**Sun Life Assurance Co of Canada**	Canada	Sun Life of Canada (US)	100	insurance	1,289	–22.2	4,970
			Sun Life's US Subs	100	insurance	635	NA	NA
						1,924		
77	**Roche Holding Ltd**	Switzerland	Hoffmann-La Roche	100	drugs, chemicals	1,800	NA	NA
78	**George Weston Ltd**	Canada	Stroehmann Bakeries	100	bakery			
			Interbake Foods	100	bakery	675	NA	259
			Eddy Paper	100	paper products			
	Loblaw Cos	Canada	National Tea	100	supermarkets	1,095	NA	500E
						1,770		
79	**Régie Nationale des Usines Renault**	France	Mack Trucks*	45	automotive	1,751	–185.7	1,616
80	**Beazer Plc***	UK	Beazer East	100	const materials			
			Beazer West	100	const materials	1,749	NA	3,900E
			Beazer Properties	100	real estate			
81	**General Accident Fire & Life Plc**	Scotland	Gen Accident Corp of Am	100	insurance	1,740	129.1	4,441
82	**Canadian Pacific Ltd***	Canada	Soo Line	100	railroad	550	–27.3	861
			Canadian Pacific US	100	transportation, steel	360E	NA	NA
	AMCA Int'l Ltd*	Canada	AMCA US	100	industrial machinery	829	NA	309
						1,739		
83	**Crownx**	Canada	Crown Life Insurance(US)	94	insurance	1,346	NA	NA
			United Health	100	health care	366	NA	NA
						1,712		
84	**BOC Group Plc***	UK	BOC Group	100	gases & health care	1,700	41.0	1,900
85	**Thomson Corp**	Canada	Thomson US	100	publishing	1,692	NA	4,095
86	**J Sainsbury Plc***	UK	Shaw's Supermarkets	100	supermarkets	1,690	NA	NA
87	**Moore Corp Ltd***	Canada	Moore Business Forms	100	business forms	1,666	93.6	973
88	**NV AMEV**	Netherlands	AMEV Holdings Inc	100	insurance	1,650	60.1	2,840
89	**Akzo NV***	Netherlands	Akzo America Inc	100	multicompany	1,644	NA	1,995
90	**Glaxo Holdings Plc***	UK	Glaxo	100	eth pharmaceutical	1,637	NA	NA
91	**Thyssen Group***	Germany	Budd Company	100	auto parts	1,540	19.6	NA
92	**Otto Family**	Germany	Spiegel*	87	catalog retailing	1,525	73.3	1,424
93	**Sobey Parties**	Canada	Hannaford Brothers*	25	food distribution	1,521	37.4	470
94	**United Biscuits (Holdings)**	UK	Keebler	100	food processing	1,472	21.6	656
95	**TBG Holding NV**	Netherlands	TBG USA	100	pumps, info sys	900E	NA	NA
			Ball-InCon Glass	50	containers, packaging	536	NA	NA
						1,436		
96	**Continental AG***	Germany	General Tire	100	tire	1,390	25.4	NA
97	**Pakhoed Holding**	Netherlands	Univar*	35	chemicals	1,379	21.5	472
98	**Commercial Union Assur Plc**	UK	Commercial Union	100	insurance	1,371	25.6	2,435
99	**Olympia & York Dev Ltd**	Canada	Landmark Land*	25	real estate	527	–34.9	2,667
	Abitibi-Price*	Canada	Abitibi-Price* (US)	100	bldg prods, newsprint	344	NA	419
	Trizec	Canada	Rouse*	23	property dev, banking	495	10.4	2,300
						1,366		
100	**Saint-Gobain**	France	CertainTeed	100	building supplies	1,362	30.4	1,126

Publicly traded in the U.S. in shares or ADRs. Note: Some foreign investors on the list own U.S. companies indirectly through companies in italics. E: Estimate. NA: Not vailable.

U.S. firms with the biggest foreign revenues

THE FOLLOWING NUMBERS may surprise the gloomsayers who worry about foreign money buying up U.S. industrial assets: U.S. companies increased their net direct investment in Western Europe alone by $19 billion in 1989, compared with $3.3 billion in 1988. In a similar vein, revenues from foreign operations of America's 100 largest multinationals *(see table below)* increased by over 9%, to $553 billion in 1989. In other words, American companies as well as foreign ones benefit from today's relatively free flow of capital across borders.

The big buildup in Western Europe stems, of course, from a fear of increased European protectionism after 1992, when most economic borders between member nations of the European Economic Community will come down. No one wants to get frozen out. The new Europe will be a $6 trillion economy with over 325 million consumers, almost 80 million more than the U.S. has. And if Eastern Europe becomes a gold mine, what better place to mine it from than a viable West European base? Indeed, the initial wave of investment in the Eastern bloc countries is being generated by such multinational giants as McDonald's, General Electric and General Motors.

All of this bodes well for U.S. multinational corporations. William Sterling, international economist for Merrill Lynch Capital Markets, expects annual gross domestic product growth of 3% to 3.5% in the European Economic Community over the next four to five years. Sterling's forecast for the U.S. is for only 2% average annual growth.

With $63 billion in foreign sales, Exxon is still the largest U.S.-based multinational. General Motors, with foreign sales of nearly $34 billion, a 16% increase, moved past Ford. In fact, GM's strength in Europe offset an estimated $2 billion loss on its auto sales in the U.S.

(When calculating foreign sales, exports from the U.S. are not considered, nor are intergeographic sales between affiliates.) It's a good time to be a multinational.

		Revenue			Net profit[1]			Assets		
1989 rank	Company	Foreign ($mil)	Total ($mil)	Foreign as % of total	Foreign ($mil)	Total ($mil)	Foreign as % of total	Foreign ($mil)	Total ($mil)	Foreign as % of total
1	Exxon	63,429	86,656	73.2	2,888	2,975	97.1	46,417	83,219	55.8
2	IBM	36,965	62,710	58.9	4,145	3,758	110.3	37,793	77,734	48.6
3	General Motors	33,768	126,932	26.6	2,952	4,224	69.9	43,576	172,899	25.2
4	Mobil	33,003[2]	50,976[2]	64.7	1,648[3]	2,663[3]	61.9	19,972	39,080	51.1
5	Ford Motor	31,964	96,146	33.2	2,208	3,835	57.6	43,218	160,695	26.9
6	Citicorp	19,877	37,970	52.3	–416	498	D-P	87,168[4]	221,002[4]	39.4
7	El du Pont de Nemours	14,152[5]	35,534[5]	39.8	896[6]	2,881[6]	31.1	10,244	34,715	29.5
8	Texaco	13,710	32,416	42.3	2,054[3]	2,942[3]	69.8	6,827	25,636	26.6
9	ITT[7]	10,944	25,271	43.3	453	985	46.0	11,502	48,725	23.6
10	Dow Chemical	9,516	17,600	54.1	1,127	2,499	45.1	9,943	22,166	44.9

[1]From continuing operations before deducting minority interest. [2]Includes other income. [3]Net income before corporate expense. [4]Average assets. [5]Includes excise taxes. [6]Operating income after taxes. [7]Includes proportionate interest in unconsolidated subsidiaries and affiliates. [8]Pretax income. [9]Excludes Canadian operations. [10]Operating profit. [11]Pretax income before corporate expense. D-P: Deficit over profit. P-D: Profit over deficit. NA: Not available.

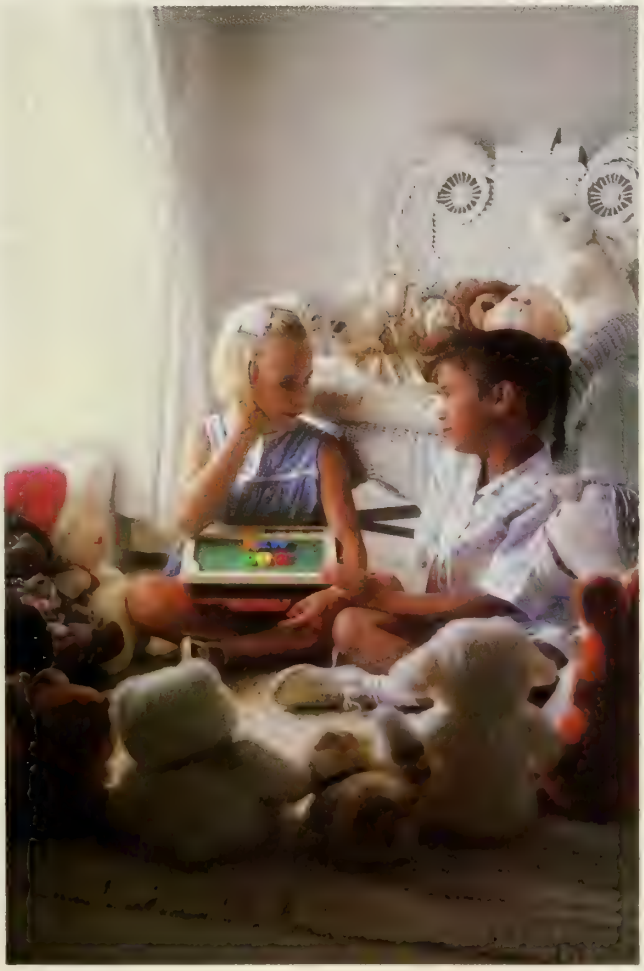
"Education has for its object the formation of character."

HERBERT SPENCER

Before we know it, today's six-year-olds will be stepping into the work force in 2001. As a nation, we will not be able to compete in the global marketplace in the 21st century unless we build a world-class education system now. And that's exactly what we're building in Mississippi.

The education challenges facing our state are not unique but Mississippi took the first step in education reform in 1982. Six months before *A Nation at Risk* detailed our country's problems in education, Mississippi adopted the landmark Education Reform Act. Forty-one states have since followed our lead. But we didn't stop there.

We've just enacted the most sweeping, comprehensive education reform package in the nation, called Mississippi's B.E.S.T. Conceived by Governor Ray Mabus, it stands for Better Education for Success Tomorrow. According to Governor Mabus, "This package is going to improve education from preschool through adulthood and on into the work place. Every Mississippian—regardless of their age and where they live—will benefit from this program."



What this means to business is that we will be producing a work force of thinkers and problem-solvers at every level. We're creating a new kind of school in Mississippi. A school where the focus is on the individual, not on bureaucracy. Where teachers are rewarded for being innovative. A school where students are taught to think, not just repeat memorized information on a test. Where there is community and family participation. And our schools will be held accountable and given incentives based on how well their students perform, not only in the classroom but also on the job after graduation.

Schools which demonstrate consistent and sustained levels of innovation and implement successful pilot programs will become Lighthouse Schools. These schools will not only become models and share their expertise throughout our state, they'll also become models for the nation.

Three-year-olds will be screened for developmental and health problems. Special assistance and remedial programs will be in place to bring them up to speed.

Mississippi's B.E.S.T. also brings the world into the classroom with a major emphasis on technology. Students will be taught to be managers of information. Within three years, every student in every classroom in the state will have an hour's worth of technological learning every day whether through computers, satellites or fiber optics. Mississippi will soon be the only state with a computer laboratory in every elementary school so that six-year-olds can learn to read and write simultaneously on a computer.

Mississippi's B.E.S.T. will accelerate our efforts to eliminate adult illiteracy with continuing education in the work place. And Mississippi business is going to see results very quickly. We were the first state in the nation to give tax credits for employers who initiated work force literacy programs. And we've just allocated more. We've established an Alliance of Families to attack family illiteracy with programs and materials so parents can participate in their children's education.

And these are just some of the highlights of more than 30 programs which make up Mississippi's B.E.S.T. "This package of sweeping reforms is not just legislation," insists Governor Mabus, "it's a concrete plan of substance, already in place, that puts Mississippi on the cutting edge of education improvement in this country. Business as usual is just not good business anymore. In Mississippi, we're meeting the future with our eyes open, our minds clear and our work force prepared."

For more information on the State of Change, contact Governor Ray Mabus or J. Mac Holladay, Director; Mississippi Department of Economic and Community Development; P.O. Box 849; Jackson, Mississippi 39205; (601) 359-3449.

The State of Change

MISSISSIPPI

The 100 largest U.S. multinationals

1989 rank	Company	Revenue Foreign ($mil)	Revenue Total ($mil)	Revenue Foreign as % of total	Net profit[1] Foreign ($mil)	Net profit[1] Total ($mil)	Net profit[1] Foreign as % of total	Assets Foreign ($mil)	Assets Total ($mil)	Assets Foreign as % of total
11	Procter & Gamble	8,529	21,398	39.9	355	1,206	29.4	5,260	16,351	32.2
12	Philip Morris Cos	7,630	39,011	19.6	560	2,946	19.0	5,714	38,528	14.8
13	Eastman Kodak	7,529	18,398	40.9	540	529	102.1	6,628	23,648	28.0
14	Digital Equipment	6,893	12,742	54.1	690	1,073	64.3	4,719	10,668	44.2
15	General Electric	6,769[2]	54,574[2]	12.4	773[8]	5,703[8]	13.6	11,346	128,344	8.8
16	United Technologies	6,501[2]	19,757[2]	32.9	377	763	49.4	3,901	14,598	26.7
17	Amoco	6,354[2]	24,379[2]	26.1	322	1,610	20.0	9,960	30,430	32.7
18	Hewlett-Packard	6,338	11,899	53.3	486	829	58.6	3,897	10,075	38.7
19	Xerox	6,093	17,635	34.6	385	856	45.0	7,657	30,088	25.4
20	Chevron	6,047	29,443	20.5	793	251	315.9	7,653	33,884	22.6
21	Chase Manhattan	6,013	13,904	43.2	–943	–665	141.8	30,948	107,369	28.8
22	American Intl Group	5,432[9]	14,150	38.4	893[10]	1,754[10]	50.9	18,510[9]	46,143	40.1
23	Minn Mining & Mfg	5,389	11,990	44.9	485	1,274	38.1	3,712	9,776	38.0
24	Unisys	4,961	10,097	49.1	44	–639	P-D	3,353	10,751	31.2
25	Motorola	4,910	9,620	51.0	304[8]	646[8]	47.1	2,605	7,686	33.9
26	JP Morgan & Co	4,888	10,394	47.0	–1,693	–1,275	132.8	38,663	88,964	43.5
27	Coca-Cola	4,886	8,966	54.5	819	1,193	68.7	2,840	8,283	34.3
28	Johnson & Johnson	4,876	9,757	50.0	600	1,082	55.5	3,656	7,919	46.2
29	American Express	4,859	25,047	19.4	171	1,157	14.8	28,201	130,855	21.6
30	Goodyear Tire & Rubber	4,448	10,869	40.9	95	189	50.3	3,162	8,460	37.4
31	Tenneco	4,285	14,083	30.4	198	584	33.9	4,884	17,381	28.1
32	Chrysler	4,172	34,922	11.9	181	315	57.5	5,615	51,083	11.0
33	Sears, Roebuck	4,135	53,794	7.7	67	1,509	4.4	3,171	86,972	3.6
34	Woolworth	3,790	8,820	43.0	117	329	35.6	1,697	3,907	43.4
35	Bristol-Myers Squibb	3,685	9,189	40.1	149	747	19.9	2,104	8,497	24.8
36	Bankers Trust New York	3,657	7,258	50.4	–1,188	–980	121.2	34,991	55,658	62.9
37	NCR	3,514	5,956	59.0	313	412	76.0	1,824	4,500	40.5
38	K mart[7]	3,512	32,753	10.7	NA	323	NA	1,217	13,538	9.0
39	Aluminum Co of America	3,416	10,910	31.3	1,051	1,367	76.9	4,899	11,541	42.4
40	American Brands	3,360	7,265	46.2	310	631	49.1	2,683	11,394	23.5
41	Colgate-Palmolive	3,211	5,039	63.7	157	280	56.1	1,672	3,536	47.3
42	Sara Lee	3,201	11,718	27.3	190	410	46.3	2,854	6,523	43.8
43	BankAmerica	3,195	11,389	28.1	–477	820	D-P	21,268	98,764	21.5
44	Bank of Boston	3,114	6,844	45.5	97	70	138.6	6,185[4]	36,492[4]	16.9
45	Monsanto	3,091	8,681	35.6	294	679	43.3	2,449	8,604	28.5
46	Merck	3,064	6,551	46.8	397	1,495	26.6	2,146	6,757	31.8
47	Whirlpool[7]	3,032	6,808	44.5	93	215	43.3	1,944	5,436	35.8
48	Manufacturers Hanover	2,996	8,300	36.1	–919	–588	156.3	24,067	60,479	39.8
49	Caterpillar	2,993	11,126	26.9	97[10]	968[10]	10.0	2,116	10,926	19.4
50	Union Carbide	2,951	8,744	33.7	91	573	15.9	3,250	8,546	38.0
51	Atlantic Richfield	2,932	15,351	19.1	119	1,953	6.1	3,986	22,261	17.9
52	CPC International	2,844	5,103	55.7	182	334	54.5	2,129	3,705	57.5
53	GTE	2,763	17,424	15.9	246	1,417	17.4	4,559	31,986	14.3
54	PepsiCo	2,723	15,242	17.9	416	901	46.2	3,070	15,127	20.3
55	Allied-Signal	2,603	11,942	21.8	137	528	25.9	2,066	10,132	20.4

[1]From continuing operations before deducting minority interest. [2]Includes other income. [3]Net income before corporate expense. [4]Average assets. [5]Includes excise taxes. [6]Operating income after taxes. [7]Includes proportionate interest in unconsolidated subsidiaries and affiliates. [8]Pretax income. [9]Excludes Canadian operations. [10]Operating profit. [11]Pretax income before corporate expense. D-P: Deficit over profit. P-D: Profit over deficit. NA: Not available.

The 100 largest U.S. multinationals

1989 rank	Company	Revenue Foreign ($mil)	Revenue Total ($mil)	Revenue Foreign as % of total	Net profit[1] Foreign ($mil)	Net profit[1] Total ($mil)	Net profit[1] Foreign as % of total	Assets Foreign ($mil)	Assets Total ($mil)	Assets Foreign as % of total
56	Pfizer	2,575	5,672	45.4	451	685	65.8	2,565	8,325	30.8
57	Salomon	2,567	8,999	28.5	559	470	118.9	36,422	118,250	30.8
58	Pan Am	2,559	3,561	71.9	–159[10]	–307[10]	51.8	NA	2,440	NA
59	Gillette	2,471	3,819	64.7	210	285	73.7	1,949	3,114	62.6
60	Kimberly-Clark[7]	2,344	6,211	37.7	172	438	39.3	2,112	5,086	41.5
61	HJ Heinz	2,328	5,801	40.1	182	440	41.4	1,622	4,002	40.5
62	Cigna	2,327	15,654	14.9	–93	458	D-P	6,119	57,779	10.6
63	McDonald's	2,219[2]	6,142[2]	36.1	219	727	30.1	3,529	9,175	38.5
64	Rockwell International	2,208	12,518	17.6	147	735	20.0	1,768	8,939	19.8
65	UAL	2,179	9,794	22.2	NA	324	NA	NA	7,207	NA
66	WR Grace	2,129	6,115	34.8	143	257	55.6	1,742	5,619	31.0
67	TRW	2,054	7,340	28.0	103	263	39.2	1,471	5,259	28.0
68	Texas Instruments	2,047	6,522	31.4	9	292	3.1	1,551	4,804	32.3
69	American Home Products	1,992	6,747	29.5	152	1,102	13.8	1,474	5,682	25.9
70	Warner-Lambert	1,947	4,196	46.4	162	413	39.2	1,099	2,860	38.4
71	Deere & Co	1,902	7,220	26.3	114	380	30.0	1,635	9,145	17.9
72	Scott Paper[7]	1,884	5,602	33.6	89	376	23.7	1,796	5,892	30.5
73	Security Pacific	1,883	10,018	18.8	95	741	12.8	14,260	83,943	17.0
74	American Cyanamid	1,861	4,825	38.6	183	292	62.7	1,225	4,971	24.6
75	Abbott Laboratories	1,838	5,380	34.2	125	860	14.5	1,255	4,852	25.9
76	Phillips Petroleum	1,835	12,384	14.8	308	219	140.6	2,232	11,256	19.8
77	Ralston Purina	1,832	6,658	27.5	68	351	19.4	1,023	4,382	23.3
78	Borden	1,824	7,593	24.0	80	–61	P-D	1,559	4,825	32.3
79	American Family	1,783	2,438	73.1	94	81	116.0	5,351	6,515	82.1
80	Sun Company	1,774	9,805	18.1	–7	98	D-P	2,992	8,699	34.4
81	PPG Industries	1,771	5,734	30.9	124	473	26.2	1,677	5,645	29.7
82	Halliburton	1,734[2]	5,661[2]	30.6	57	134	42.5	1,124	4,263	26.4
83	Avon Products	1,724	3,300	52.2	106	160	66.3	787	2,098	37.5
84	Honeywell	1,712	6,059	28.3	117	550	21.3	1,269	5,258	24.1
85	Kellogg	1,711	4,652	36.8	125	422	29.6	1,531	3,390	45.2
86	Dresser Industries	1,678	3,956	42.4	61	170	35.9	820	3,056	26.8
87	Quaker Oats	1,650	5,724	28.8	59	203	29.1	658	3,222	20.4
88	Merrill Lynch	1,650	11,335	14.6	–65	–217	30.0	7,884	63,942	12.3
89	Baxter International	1,623	7,399	21.9	125	446	28.0	1,435	8,503	16.9
90	Emerson Electric	1,621	7,071	22.9	132	588	22.4	1,221	5,408	22.6
91	International Paper	1,590	11,378	14.0	98[8]	1,405[8]	7.0	1,984	11,582	17.1
92	Westinghouse Electric	1,539	12,844	12.0	68	935	7.3	736	20,314	3.6
93	Unocal	1,532[2]	10,381[2]	14.8	351[11]	1,107[11]	31.7	1,669	9,257	18.0
94	Eli Lilly	1,517	4,176	36.3	325	940	34.6	1,840	5,848	31.5
95	AMP	1,515	2,797	54.2	164	281	58.4	1,141	2,530	45.1
96	Bank of New York	1,507	5,497	27.4	–195	51	D-P	11,611	48,856	23.8
97	Black & Decker	1,458	3,190	45.7	93	30	310.0	2,298	6,258	36.7
98	Dun & Bradstreet	1,428	4,322	33.0	139	586	23.7	1,463	5,184	28.2
99	Chemical Banking	1,418	8,227	17.2	–616	–482	127.8	11,466	71,513	16.0
100	Intel	1,352	3,127	43.2	331	391	84.7	1,167	3,994	29.2

[1]From continuing operations before deducting minority interest. [2]Includes other income. [3]Net income before corporate expense. [4]Average assets [5]Includes excise taxes. [6]Operating income after taxes. [7]Includes proportionate interest in unconsolidated subsidiaries and affiliates. [8]Pretax income [9]Excludes Canadian operations. [10]Operating profit. [11]Pretax income before corporate expense. D-P: Deficit over profit. P-D: Profit over deficit. NA: Not available.

Buying foreign stocks in the U.S.

DONNA PULINI, a vice president at Citibank's American Depositary Receipts Department in New York, makes the case for ADRS. "Why deal with strange numbers and exchange rates," she asks, "when you can buy directly on the New York Stock Exchange and deal only in U.S. currency?" ADRS, which have been in existence since 1927, eliminate the risks and barriers of language and transfer taxes. Everything is done in U.S. dollars, including dividend payments—although it is important to remember that foreign currency fluctuations will ultimately be reflected in varying dollar values.

Last year a record 3.1 billion ADRS traded hands on the U.S. major exchanges. According to the Securities & Exchange Commission, more than 800 foreign companies from 33 countries now have ADRS trading in the U.S. Even companies in emerging markets, including Turkey and Greece, may issue their first ADRS.

An ADR represents foreign shares that are physically deposited in a custodian bank in a home market. Often a particular ADR issue will represent a multiple of the foreign company's underlying common shares outstanding. For example, one ADR of British Telecommunications (traded on the New York Stock Exchange) represents ten shares of BT's London-traded common. That's important to remember when comparing ADR prices to the foreign market prices reported in some financial publications.

The data below come courtesy of Citibank's ADR Department. Sponsored ADRS are issued by a U.S depositary bank such as Citibank, Morgan Guaranty or the Bank of New York. Such ADRS have a formal agreement between the bank and the foreign company. Unsponsored ADRS may be issued by any depositary bank, and without a formal agreement with the company. The market for sponsored ADRS is more liquid because there is only one bank involved, and greater SEC disclosure requirements.

Actual 1989 earnings and 1990 earnings estimates come courtesy of Lynch, Jones & Ryan's Institutional Brokers Estimate System ADR database.

Exch	Company/business	Country	ADR ($US)	EPS 1989 ($)	EPS 1990E ($)	1989 P/E	Price/ cash flow	Yield (%)	Ordinary shares per ADR
q	•**ADT Limited**/security svcs, bldg mgmt	Bermuda	31⅞	3.10	3.30	10.3	NA	5.6	10.00
q	•**AEGON NV**/insurance	Netherlands	66⅛	6.55	7.11	10.1	NA	4.6	1.00
q	•**Akzo Group**/chemicals	Netherlands	31	5.86	5.56	5.3	2.92	6.8	0.50
q	•**ASEA AB**/electronics	Sweden	126¾	6.33	7.58	20.0	7.94	1.6	1.00
q	•**Attwoods Plc**/waste management	UK	39⅝	1.90	2.25	20.9	NA	2.1	5.00
n	•**Barclays Plc**/banking	UK	27	2.00	4.72	13.5	NA	6.5	4.00
o	▪**BASF Group**/chemicals	Germany	34⅞	4.53	4.58	7.7	3.52	6.9	0.20
o	▪**Bayer Group**/chemicals	Germany	174½	22.05	22.32	7.9	4.49	6.9	1.00
n	•**Beazer**/construction	UK	9	1.78	1.45	5.1	2.52	7.8	4.00
o	▪**Brierley Investments**/multicompany	New Zealand	2¼	0.22	0.26	10.2	7.89	5.9	2.00
n	•**British Airways Plc**/airline	UK	35	5.40	5.10	6.5	2.68	5.7	10.00
n	•**British Gas Plc**/gas utility	UK	37½	4.00E	4.80	9.4	8.06	6.4	10.00
n	•**British Petroleum**/integrated oil	UK	67½	6.60	5.40	10.2	4.73	6.2	12.00
n	•**British Steel**/steel	UK	25	4.90E	3.80	5.1	3.37	7.2	10.00
n	•**British Telecom**/telecommunications	UK	48¾	5.00E	5.50	9.8	5.55	5.5	10.00
n	•**Broken Hill Prop**/steel, oil, gas	Australia	29	2.44E	2.92	11.9	6.53	3.8	4.00
o	▪**BSN-Groupe**/food and household prods	France	30⅜	1.76	1.97	17.2	10.00	2.0	0.20
q	▪**Buffelsfontein Gold Mining**/gold, uranium	S Africa	14½	1.39	1.65	10.4	NA	17.5	1.00
a	▪**B.A.T Industries Plc**/tobacco, paper, foods	UK	12⅛	1.32	1.30	9.2	8.02	5.5	1.00
n	•**Cable & Wireless**/telecommunications	UK	27¾	1.59E	1.83	17.5	13.59	2.0	3.00

Prices as of May 31, 1990. a: American Stock Exchange. n: New York Stock Exchange. o: Over-the-counter. q: Nasdaq. •Sponsored American Depositary Receipt. ▪Unsponsored American Depositary Receipt. E: Estimate. NA: Not available.

Sources: Citibank ADR Department; Institutional Brokers Estimate System ADR database, a service of Lynch, Jones & Ryan; FORBES.

100 U.S.-traded foreign stocks

Exch	Company/business	Country	ADR ($US)	EPS 1989 ($)	EPS 1990E ($)	1989 P/E	Price/ cash flow	Yield (%)	Ordinary shares per ADR
q	•**Cadbury Schweppes**/food processing	UK	57½	4.30	4.60	13.4	9.07	4.2	10.00
q	•**Canon**/office equip, optics	Japan	57½	1.70	2.15	33.8	12.40	0.7	5.00
o	■**Cathay Pac Airways**/airline	Hong Kong	6¼	0.75	0.85	8.3	5.78	4.7	5.00
o	■**Cheung Kong**/real estate	Hong Kong	1⅝	0.16	0.19	10.2	9.62	3.1	1.00
o	■**China Light & Power**/gas, electric utility	Hong Kong	1¾	0.16	0.17	10.9	8.54	4.8	1.00
o	■**Cifra**/merchandising	Mexico	1⅛	0.05	NA	21.6	15.00	5.4	1.00
o	•**Continential Group**/tires	Germany	35⅛	3.12	3.34	11.3	4.30	4.2	0.20
o	■**Daimler-Benz Group**/automobiles	Germany	482⅞	30.40	32.44	15.9	6.15	2.3	1.00
q	■**DeBeers Cons Mines**/diamond mining	S Africa	25⅝	1.92	2.63	13.3	NA	4.1	1.00
o	■**Deutsche Bank Group**/banking	Germany	459	26.15E	29.51	17.6	NA	2.8	1.00
o	■**Development Bank Singapore**/banking	Singapore	7¼	0.29	0.34	25.0	NA	0.8	1.00
o	•**Elf Aquitaine Group**/oil, gas, chemicals	France	123	13.67E	15.31	9.0	4.42	4.5	1.00
n	•**Empresa Nacionale de Electric**/elec utility	Spain	22⅝	2.40	2.96	9.4	3.78	4.2	1.00
q	•**LM Ericsson**/telecommunications	Sweden	201⅜	9.14	10.96	22.0	14.70	1.1	1.00
n	•**Fiat Group**/automobiles	Italy	43⅛	5.95E	6.30	7.2	4.43	3.5	5.00
q	•**Fisons**/drugs	UK	24½	1.52	1.80	16.1	13.37	2.2	4.00
o	•**Fletcher Challenge**/forest, paper prods	New Zealand	26¼	3.50	3.30	7.5	4.08	6.2	10.00
o	■**Fuji Heavy Inds**/automobiles	Japan	45	0.28E	0.34	NM	NA	1.2	10.00
q	■**Fuji Photo Film**/photo equip	Japan	54¾	2.56	2.72	21.4	13.02	0.3	2.00
o	■**Fujitsu Ltd**/data process, computer equip	Japan	48¾	1.82E	1.92	26.8	12.04	0.6	5.00
n	•**Glaxo Holdings Plc**/food, drugs, medical equip	UK	26½	1.60	1.86	16.6	13.22	4.2	2.00
o	•**Grand Metropolitan**/multicompany	UK	20¾	1.92	2.22	10.8	7.26	4.0	2.00
o	•**Hafslund Nycomed**/health, personal care	Norway	26½	2.24	2.31	11.8	9.40	0.7	1.00
n	•**Hanson Plc**/multicompany	UK	20⅝	1.60	1.80	12.9	11.14	5.0	5.00
o	■**Heineken NV**/beverages, tobacco	Netherlands	67	5.39	5.76	12.4	5.27	2.7	1.00
n	•**Hitachi Ltd**/electrical equip	Japan	102½	4.00	4.70	25.6	9.31	0.6	10.00
o	■**Hoechst Group**/chemicals	Germany	84¾	11.33	11.29	7.5	4.18	7.1	0.50
n	•**Honda Motor Co Ltd**/autos, motorcycles	Japan	23¾	1.10E	1.24	21.6	8.10	0.8	2.00
o	■**HongKong & Shanghai Bank**/banking	Hong Kong	⅞	0.10	0.11	8.8	NA	7.1	1.00
o	■**Hutchison Whampoa**/multicompany	Hong Kong	7½	0.65	0.75	11.5	9.87	4.9	5.00
n	•**Imperial Chemical Inds**/chemicals	UK	81	9.36	8.68	8.7	5.58	6.1	4.00
q	•**Ito-Yokado Co Ltd**/superstores	Japan	111½	3.72	4.04	30.0	18.39	0.5	4.00
o	■**Jardine Matheson**/holding co	Bermuda	4½	0.32	0.43	14.1	11.76	2.8	1.00
o	•**Keppel**/machinery, engineering	Singapore	8¾	0.25	0.32	35.2	22.22	0.6	2.00
o	■**Kloof Gold Mining**/gold mining	S Africa	9¾	0.32	0.26	30.1	NA	4.8	1.00
o	•**Komatsu Ltd**/heavy-duty equip	Japan	162½	3.80E	4.20	42.8	22.69	0.7	20.00
n	•**Kyocera**/ceramics, electronics, optics	Japan	104¼	2.52E	2.86	41.4	28.89	0.6	2.00
q	•**LVMH**/luxury goods	France	162¾	7.93E	9.34	20.5	17.12	2.0	0.20
o	■**L'Oréal Group**/personal care prods	France	187½	9.16	10.44	20.5	14.26	1.7	0.20
n	•**Manpower**[1]/employment agency	UK	13¾	0.90	0.90	15.3	10.36	1.0	10.00

Prices as of May 31, 1990. [1]Was Blue Arrow. a: American Stock Exchange. n: New York Stock Exchange. o: Over-the-counter. q: Nasdaq. •Sponsored American Depositary Receipt. ■Unsponsored American Depositary Receipt. E: Estimate. NA: Not available. NM: Not meaningful.

Sources: Citibank ADR Department; Institutional Brokers Estimate System ADR database, a service of Lynch, Jones & Ryan; Forbes.

100 U.S.-traded foreign stocks

Exch	Company/business	Country	ADR ($US)	EPS 1989 ($)	EPS 1990E ($)	1989 P/E	Price/ cash flow	Yield (%)	Ordinary shares per ADR
n	•**Matsushita Elec Industrial**/electronics	Japan	143¾	7.61E	7.78	18.9	10.28	0.6	10.00
o	■**Mitsubishi Electric**/elec, electronics	Japan	66¼	2.20E	2.30	30.1	8.41	0.9	10.00
n	•**Montedison**/chemicals	Italy	17½	1.60E	1.40	10.9	3.66	2.4	10.00
n	•**National Australia**/banking	Australia	25	3.40	3.65	7.4	NA	9.4	5.00
n	•**National Westminster**/banking	UK	36	1.56	6.00	23.1	NA	6.4	6.00
o	•**Neptune Orient Lines**/shipping	Singapore	4½	0.24	0.28	19.0	6.29	2.5	4.00
o	■**Nestlé**/food processing	Switzerland	157¾	11.53	13.03	13.7	8.10	2.2	0.03
n	•**News Corp Ltd**/newspapers, broadcasting	Australia	15½	2.28	1.34	6.8	5.39	1.0	2.00
o	•**Nintendo**/electronics	Japan	34⅝	0.80	0.69	43.2	NA	0.2	0.25
o	•**Nokia**/multicompany	Finland	25¾	1.11	1.74	23.2	6.23	2.7	1.00
q	•**Norsk Data AS**/minicomputers	Norway	6⅞	–1.37E	–0.16	NM	–6.21	0.0	1.00
n	•**Norsk Hydro**/fertilizers, oil, gas, metals	Norway	31⅝	2.04	2.35	15.5	5.96	1.9	1.00
n	•**Novo Nordisk B**/chemicals	Denmark	47⅛	3.78	3.78	12.5	7.89	1.3	1.00
q	•**Pacific Dunlop**/multicompany	Australia	15	1.20	1.32	12.5	8.32	3.9	4.00
o	•**Petrofina SA**/integrated oil, chems	Belgium	34⅜	2.87	3.01	12.0	5.10	4.6	0.10
o	■**Peugeot Group**/automobiles	France	28⅞	7.31	8.07	4.0	2.79	2.9	0.20
n	•**Philips Group**/elec equip, electronics	Netherlands	18⅛	2.64	1.85	6.9	1.99	5.8	1.00
n	•**Pioneer Electronic**/electronics	Japan	79	2.22E	2.50	35.6	29.09	0.3	2.00
n	•**Racal Telecom**/mobil telecomm	UK	63¼	2.00E	3.00	31.9	32.98	0.3	10.00
o	•**Reed Intl**/publishing	UK	29½	2.56E	2.80	11.5	11.10	3.8	4.00
q	•**Reuters Holdings**/intl news service	UK	60⅜	2.25	2.73	26.8	17.10	1.5	3.00
n	•**Royal Dutch Petroleum**/integrated oil	Netherlands	76¾	8.49	7.46	9.0	5.02	5.2	1.00
o	■**Sekisui House Ltd**/home building	Japan	132½	4.10	4.80	32.3	32.22	0.9	10.00
o	■**Siemens Group**/elec, electronics	Germany	85¼	5.36	5.73	15.9	6.39	2.7	0.20
o	■**Sime Darby**/multicompany	Malaysia	1⅝	0.05	0.06	32.5	19.99	2.4	1.00
q	•**SKF Group**/bearings, steel prods	Sweden	27	2.31	2.72	11.7	8.03	2.6	1.00
n	•**SmithKline Beecham**/health, personal care	UK	45⅝	3.15	3.55	14.5	11.90	2.1	5.00
n	•**Sony**/electronics	Japan	56⅝	2.18	2.46	26.0	12.24	0.6	1.00
o	■**STET**/telecommunications	Italy	52½	4.30E	4.90	12.2	2.09	3.1	10.00
o	■**Swire Pacific Ltd**/multicompany	Hong Kong	5	0.50	0.56	10.0	8.30	4.1	2.00
n	•**Telefonica**/telecommunications	Spain	23⅝	1.95	2.20	12.1	2.63	6.7	3.00
q	■**Teléfonos de Mexico**/telecommunications	Mexico	1⅞	0.09	0.18	19.9	11.20	0.3	1.00
o	■**Thyssen Group**/metals, steel	Germany	33¾	4.17	3.99	8.1	4.12	5.5	0.20
q	•**Tokio Marine & Fire**/insurance	Japan	51⅞	0.95E	1.00	54.6	NA	0.5	5.00
q	■**Toyota Motor**/automobiles	Japan	33¼	1.58	1.68	21.0	11.79	0.8	2.00
n	•**Unilever NV**/multicompany	Netherlands	80⅞	6.35	6.93	12.7	9.51	3.1	1.00
o	■**Veitscher Magnesit**/metals nonfer	Austria	19	0.64E	0.72	29.7	19.84	1.8	0.20
o	•**Volkswagen Group**/automobiles	Germany	70⅞	7.07	7.66	10.0	4.52	2.9	0.20
q	•**Volvo AB**/automobiles	Sweden	58¾	9.35	8.44	6.3	4.14	4.3	1.00
o	•**Wellcome**/health, personal care	UK	11¼	0.34	0.44	33.1	23.10	1.1	1.00

Prices as of May 31, 1990. a: American Stock Exchange. n: New York Stock Exchange. o: Over-the-counter. q: Nasdaq. •Sponsored American Depositary Receipt. ■Unsponsored American Depositary Receipt. E: Estimate. NA: Not available. NM: Not meaningful.

Sources: Citibank ADR Department; Institutional Brokers Estimate System ADR database, a service of Lynch, Jones & Ryan; FORBES.

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BETTER THINGS FOR BETTER LIVING.

The Forbes Wall Street Review

Edited by Eric S. Hardy

Bad earnings announcements are rolling off the market like water off a duck. "Wall Street is accentuating the positive and shrugging off the negative," says Robert Stovall, president of Stovall/Twenty-First Advisers. "Investors were already expecting lackluster profits in the second quarter, so negative earnings announcements aren't really news to them." No question, individual stocks still take a pounding when earnings fail to live up to expectations, as recently happened to two blue chips—Caterpillar and AT&T. But the overall market is holding up quite well despite surprises like these.

One reason for the relatively strong market in late June, according to Stovall, is that money managers tend to "window dress" their portfolios near the close of a quarter, by lightening up on cash and buying stocks. During the past two weeks stocks gave back a bit of their recent gains. The Dow fell 1.7%, the Wilshire 1.6%. The equally weighted Wilshire index lost only 0.4% in this period—further evidence that the broad market is keeping up with, or in some cases outperforming, the large-capitalization issues that dominate the Dow and S&P 500.

The Wilshire index has now recovered almost all its losses from last January's sharp decline. Through June 28 the index shows a price return of –0.1% and a total return (including reinvested dividends) of 1.5%.

The Best Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Topps	24	17%	20	1,479	1.5
Am Barrick Resources	18½	14	54	2,053	0.7
Safeway	14	13	NM	1,382	0.5
Price Co	41½	13	17	3,824	0.9
Homestake Mining	17⅝	12	29	2,309	0.6

The Worst Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Consolidated Freight	12⅝	–25%	NM	3,247	1.4
Armco	7¼	–22	5	3,175	1.8
Caterpillar	52⅜	–21	12	11,067	2.8
Sotheby's Holdings	15⅝	–19	8	1,170	0.4
Quantum Chemical	16⅝	–16	2	1,055	0.9

Closeup on the Market

Index or investment	Price	2-week change
Wilshire index 6,000 stocks, capitalization weighted	3,417.43	–1.6%
Wilshire index 6,000 stocks, equal weighted	21.85	–0.4
Dow Jones industrials 30 stocks, divisor-adjusted price average	2,878.71	–1.7
S&P 500 Capitalization weighted cross section, major stocks	357.63	–1.5
NYSE Capitalization weighted, all listed common stocks	195.18	–1.4
Amex Capitalization weighted total return: stocks, warrants	358.57	–1.6
Nasdaq Capitalization weighted, all issues except warrants	460.38	–1.4
Amex international market index Capitalization weighted, 50 largest ADRs	319.11	0.8

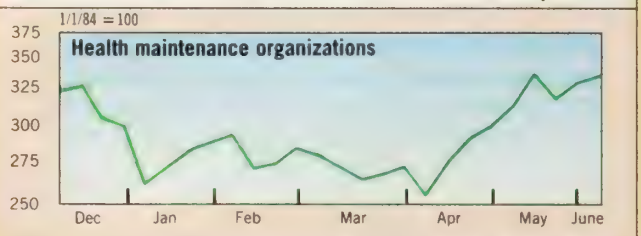
Index or investment	Price or rate	2-week change
Europe, Australia, New Zealand and Far East[4] (EAFE) a dollar denominated capitalization weighted index	909.50	–0.1%
Institutional[5] Approximately 200 stocks with high institutional ownership	117.35	–1.9
Individual[5] Approximately 200 stocks with low institutional ownership	105.69	–0.5
Russell 2000 index 2000 stocks with small market values, capitalization weighted	168.41	–1.3
Gold[6] (composite quote of 6 major dealers)	$354.87	2.9
Yen[6] (per $U.S.)	153.15	–0.6
Commodity index[6] (CRB futures index, 1967 = 100)	235.81	–0.3
Oil[6] (W Texas Intermediate)	$17.15	unchanged
T bills[6] (90 days)	7.73%	9 basis points[7]
Broker loan rate[6]	9.25%	unchanged

Note: All data for periods ending 6/28/90. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. Stocks listed above have market capitalizations of $500 million or more. [1]Capitalization weighted, prepared by Wilshire Associates, Santa Monica, Calif. [2]Average daily volume over a 2-week period. [3]Average daily volume over the last 2 weeks, divided by the average daily volume over the preceding 3 months. [4]Morgan Stanley Capital International Perspective. [5]For period ending 6/29/90. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. [6]Knight-Ridder Financial Information. [7]A basis point is equal to one-hundredth of a percentage point. NM: Not meaningful.

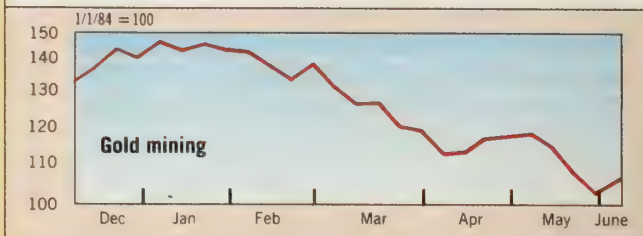
Industry Review

Edited by Gilbert Steedley

Best industry last 6 months



Worst industry last 6 months



Health stocks made some investors well. The two best-performing groups over the last six months were health maintenance organizations and outpatient centers. These industries gained strength on their earnings growth. The third-best-performing group was computer software. Of the biggest software companies (as measured by market capitalization), industry giants Novell and Microsoft each gained more than 75%. Computer Associates International and Lotus Development posted more modest increases. The market's love-hate relationship with gold has again turned to hate. When we looked at industry performance earlier this year *(Jan. 8)*, gold stocks were the strongest group over the prior six-month period. Now the gold mining industry is in the dumps.

Leading Industries

Health maintenance organizations

Company	Recent price	6-month price change	Relative rank strength	Relative rank EPS	P/E
United HealthCare	17	49%	96	94	21
Occupational-Urgent Care	22¾	36	90	92	61
US HealthCare	17⅝	33	94	94	24
PacifiCare Health Sys	24¾	–4	83	98	20
FHP Intl	17¾	–5	69	88	15

Outpatient services

Company	Recent price	6-month price change	Relative rank strength	Relative rank EPS	P/E
Medical Care Intl	36¼	62%	95	87	34
Surgical Care Affiliates	28¾	59	97	99	44
New England Critical Care	28¾	34	92	98	39
T Square Medical	26¼	22	91	96	28
Diagnostek	16⅜	15	95	88	43

Computer software

Company	Recent price	6-month price change	Relative rank strength	Relative rank EPS	P/E
Novell	52½	85%	95	98	29
Microsoft	74½	77	97	99	35
Autodesk	53½	44	89	97	27
Computer Assocs Intl	15⅛	23	65	94	18
Lotus Development	33¾	18	81	99	17

Lagging Industries

Gold mining

Company	Recent price	6-month price change	Relative rank strength	Relative rank EPS	P/E
Driefontein Consolidated	10⅛	–33%	24	31	15
Placer Dome	14¾	–23	36	57	31
Newmont Gold	40¾	–21	46	96	30
Newmont Mining	42⅜	–11	51	84	23
American Barrick Res	18	5	83	89	53

Real estate investment trusts

Company	Recent price	6-month price change	Relative rank strength	Relative rank EPS	P/E
CRI Liquidating	11¾	–7%	63	60	10
CRI Insured Mortgage Assoc	8⅛	–7	48	34	9
Del-Val Finacial	16⅞	–6	48	60	9
Capstead Mortgage	15½	–5	51	77	7
RPS Realty Trust	6	2	65	81	7

Building

Company	Recent price	6-month price change	Relative rank strength	Relative rank EPS	P/E
PHM	8½	–19%	18	59	4
Standard Pacific LP	11⅞	–14	20	75	3
Kaufman & Broad Home	12⅛	–7	28	84	5
Ryland Group	18½	–1	36	97	6
Universal Medical Buildings LP	5¾	0	63	23	NM

Industries are ranked from 1 (highest) to 197 (lowest) based on the equal-weighted price performance of the companies within the industry group. Relative EPS measures a company's earnings-per-share growth in the last 2 quarters, the last 5 years and the stability of that growth. Relative strength is a stock's daily price change over the last 12 months. For both measurements, stocks are compared with all other stocks and ranked on a scale of 0 to 99, with 99 the highest. Industry group performance is based on 6-month equal-weighted price changes with most recent 3-month results weighted 70%. NM: Not meaningful. All data for periods ending 6/25/90. Source: Investor's Daily, Los Angeles, Calif.

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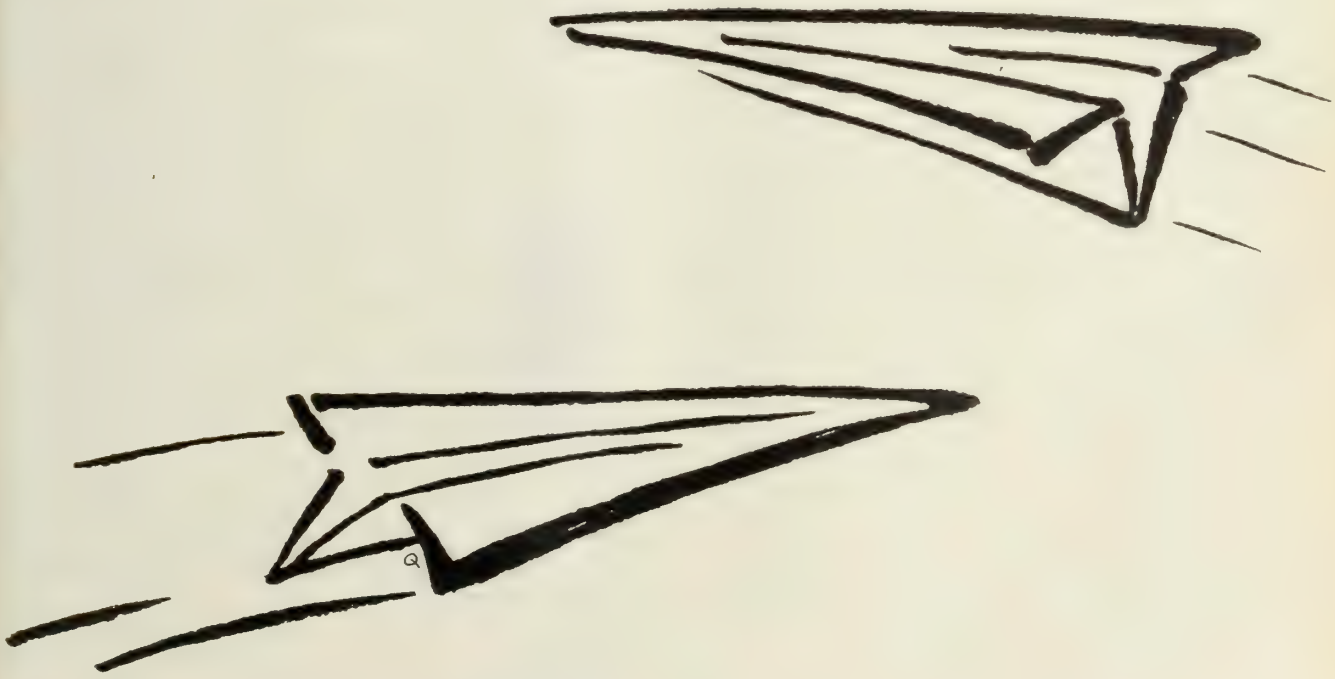

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Given deteriorating municipal bond credit quality, it's a good idea to give up a trifle in yield to get insured issues.

A SMALL PRICE TO PAY

By Ben Weberman

Here's something new to worry about: Given the deteriorating credit outlook for many state and local governments, it's probably smart to buy insured issues if you're in the market for tax-free bonds. Beyond that, be careful which company is insuring the bond: There are important differences in the creditworthiness of the major insurers.

All this is worth thinking about because right now municipal bonds look like a pretty good bet. A good long-term insured municipal bond yields about 7.25%; for an investor in the top income tax bracket, a long-term Treasury yields only about 6%. (The arithmetic is less favorable if you live in a state with a local income tax because out-of-state munis are subject to that tax but Treasurys are not.)

About 26% of the $54 billion in long-term municipals issued in 1990 carry insurance on both interest and principal. Typically, the issuer and the syndicate selling the bonds decide what portion of an issue to insure, depending on what they think the market wants: Those not insured carry a slightly higher yield for the exposure.

The cost of insurance is fairly insignificant—usually only about one-quarter of 1%—given the additional peace of mind it brings you. By buying an insured municipal, you get the benefit of a good-quality issue—guarantors avoid really risky bonds—with the secondary backup of the insurer. With some states, like Massachusetts and New York, on massive spending sprees, you cannot be too confident these days about creditworthiness.

However, you've got to differentiate among the insurance companies. Conventional belief is that the top three companies rank equally in credit quality, since all are rated Aaa by Moody's Investor Service and by Standard & Poor's. In fact, there are important differences. A fourth company, perceived as being a step lower in quality, actually looks better than its peers, by one key measure. Here's an analysis:

The largest, AMBAC, formerly American Municipal Bond Assurance Corp., has over $700 million of capital. It's owned by Citibank.

MBIA, Municipal Bond Investors Assurance, comes second with just about $700 million of capital.

Financial Guaranty, FGIC, is third largest; capital is $531 million.

There are significant differences in capital adequacy, however. A key measure used by industry analysts is the risk-to-capital ratio, balancing the insurer's net exposure against its capital. The average in the industry is 126-to-1. AMBAC has $72 billion of net coverage, while MBIA is on the hook for $137 billion. AMBAC's risk-to-capital ratio is 99-to-1, while MBIA's is 190-to-1. That level is close to the danger point of 200-to-1 used by California to stop a business from operating.

MBIA was put in that shaky position through an acquisition of competitor BIG (Bond Investors Guaranty). For times of trouble MBIA has a $500 million credit line with Credit Suisse. Financial Guaranty, with $74 billion of insured coverage, has a risk ratio of 140-to-1.

The surprise is Capital Guaranty Insurance, which has $106 million of capital and a solid ratio of 77-to-1. The company is generally perceived to be of lower quality because it isn't rated by Moody's, which in 1987 said it would give it a rating if Capital Guaranty put in about $75 million more in capital. With an AAA rating from S&P, Capital Guaranty says it's content to remain unrated by Moody's.

The lack of this second rating creates an investment opportunity for individuals, says Richard Ciccarone, head of fixed-income research at Blunt, Ellis & Loewi of Chicago. The debt service guaranties of Capital are as sound as those of the big three while returning up to 30 basis points in additional yield, to reflect the perceived disparity.

Whatever your investment goals, it hardly pays to buy a noninsured bond today. Differences in return are currently narrow. Even though insured bonds are rated AAA, they trade at the yield level of bonds graded AA. Usually, only general obligations of high-credit-quality states and cities, including Dallas, are rated real AAA.

For comparison, Ciccarone notes that Texas Turnpike 7⅛s of 2015 yield 7.50% on their noninsured A rating. The same issue, carrying the AAA-rated guaranty of AMBAC, yields just 12 basis points lower, at 7.38%. That's a small price to pay for the second guaranty.

If you're looking for additional safety and don't want to go through the hassle of selecting individual bonds and examining the underlying insurance company, buy a participation in a tax-free mutual fund portfolio of insured bonds. AARP Insured, for example, has no load and operating expenses of only 0.83% a year. Total return over the past three years has been 20%.

Insured unit investment trusts are popular but expensive: Van Kampen Merritt's Insured Municipal Income Trust series 249 charges a 4.9% front-end load and 0.14% a year in operating expenses for a monthly distribution. The estimated net long-term return is 6.85%. ■

Ben Weberman is a contributing editor of FORBES magazine.

What do you look for when buying small-cap stocks? Exactly the same things you would look for in big-cap stocks.

GETTING READY FOR THE REBOUND

By David Dreman

Small stocks have been disappointing for years. However, they will again have their day, perhaps soon.

If you agree with this, where do you look for small-capitalization stocks to buy? Same place you would look for big-cap stocks. In the low-P/E bargain basement. Over both the last 10 and 20 years, low-P/E stocks in the small-cap universe have sharply outperformed their high-P/E brethren as well as the small-cap indexes. What's more, the smaller low-P/E stocks have also outperformed large companies over the past 10 years, surprising in view of the lackluster performance of small-cap indexes.

My firm did the study that leads to these conclusions in conjunction with Professor Michael Berry of James Madison University. To build our database, we took all the 6,000 companies on the Compustat tapes and divided them by both P/E and market size. In the accompanying table the lowest 20% of stocks—as ranked by price/earnings ratios—are in column one, progressing to the highest 20% in column five. Looking across the table, the lowest 20% of stocks by market value (1989 average, $46 million) are in the top row, the largest 20% ($6 billion) in the bottom row.

Even a glance at the table strengthens the low-P/E case. The lowest-P/E group outperformed the highest group for companies of all five market-size categories. The difference in returns is formidable. Had you invested $10,000 in the lowest P/Es of the lowest market-size group back in 1969, it would have been worth $297,565 last year—more than 13 times as much as the $22,790 for the highest-P/E group. The results are almost as lopsided for companies in the second-lowest market cap range (row two). The lowest 20% of P/Es here provided a 15.7% annual return, versus 7.4% for the highest-P/E group.

Moving to the largest stocks—in row five—the lowest-P/E group provided a 13% return, versus 10.7% for the group average and 8.7% for the highest-P/E stocks.

The table also clearly demonstrates that the low-P/E strategy is even more effective as company size is reduced. Returns drop as market size increases, but this is partially offset both by higher transaction costs for small stocks and by greater risk.

The study provides solid backing for an investment strategy in small stocks almost identical to the one I recommend for large-P/E issues. Here are some pointers that should be helpful in following the low-P/E approach for smaller companies.

1) Buy companies that are strong financially, normally no more than 40% debt in the capital structure for a manufacturing firm.

2) Buy companies with increasing and well-protected dividends that also provide an above-market yield.

3) Pick companies with above-average earnings growth rates.

4) Diversify widely: Because smaller-cap stocks have far less liquidity, a good portfolio should contain about twice as many stocks as the equivalent large-cap one.

5) Be patient: Nothing works every year, but when smaller caps click, returns are outstanding.

Here are a number of small-cap stocks I would look at today: *KeyCorp* (27), a bank holding company, has had stringent loan policies. As a result, earnings should be up 10% this year and continue their rising trend. The stock trades at a price/earnings ratio of 8 and yields 4.9%.

Meridian Bancorp (15), the fourth-largest bank holding company in Pennsylvania, recently passed an examination by bank regulators with little increase to reserves. The stock trades at a P/E multiple of 7 and yields 7.6%.

Blair Corp. (37) is a marketer, principally by mail, of men's and women's apparel as well as home furnishings. Company earnings should be up close to 25% from depressed 1989 results, to a new high. The stock trades at a P/E of 11 and yields 4.7%.

Kimball International B (23) manufactures furniture for the business and health care sectors. Income should show better than 10% growth in both fiscal 1990 and 1991 (ending June 30). It trades at a P/E of 11 and yields 2.6%. ■

Smaller is better

When we divided the Compustat tapes into five equal groups by market size, and also sorted them into five P/E groups, the annual returns (in the five columns below) of the lowest P/Es were significantly better, regardless of the size of the company. These figures cover the 20½ years ended Oct. 31, 1989.

Average market size of company ($mil)					
$46	18.0%	15.3%	10.2%	7.0%	4.1%
127	15.7	13.7	10.0	6.5	7.4
360	17.0	15.1	10.6	7.4	8.2
1,031	13.8	12.9	10.3	8.5	7.1
5,974	13.0	12.4	9.1	10.5	8.7

David Dreman is managing director of Dreman Value Management, L.P., Investment Counsel, New York, and author of The New Contrarian Investment Strategy.

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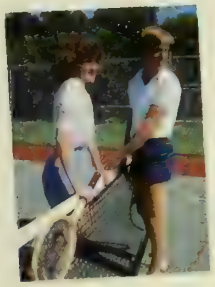

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It looks like next year before the DJI can significantly pierce and hold 3000.

PIGGY-BANK INDICATOR

By Ann C. Brown

Whenever I want to confirm what I think the Federal Reserve will do next, I look at the help-wanted advertising index, the hours of overtime worked and, most especially, the personal savings data—including the ratio of consumer installment credit outstanding to personal income. Since 1987, when the annual personal savings rate hit an all-time low of 3.2%, this figure has ratcheted up to 6.2%, reported for May. There are a number of reasons for this outbreak of individual thrift, which, if it continues, could mean trouble for the stock market.

Probably the chief reason for the sharp rise in savings and the decline in borrowing was the Tax Reform Act of 1986, which phased out the deductibility of interest charges on consumer loans for everything but mortgages. With the cost of retail borrowing anywhere from 13% to 20%, purchases "on time" have become increasingly unattractive. Home equity loans, which many people used as an alternative interest-deductible means of financing their consumption habit, have lost their earlier appeal. Not only are S&Ls and commercial banks lending less aggressively, they are demanding more in the way of equity for the loans they do make. This has forced potential lendees to save more before they borrow, which, because of a reverse-multiplier effect, further increases the savings rate.

Changing demographics also play a part in the return to higher savings by many Americans. With the last of the baby boomers now 30 years old, most of this group has housing, cars, appliances, etc., contracted for in the buy-buy days of the mid-to-late Eighties. From here on out, it's strictly a replacement or upgrade market—both of which should be largely manageable from cash flow.

Other demographic factors influencing savings include more children whose parents are saving for their education and an aging population saving to pay steeply rising health care costs and/or saving in anticipation of an increasingly long—and independent—old age. Even the elder citizens figure into the demographic equation, because they are dissaving less, thanks to indexed Social Security, more pension incomes and Medicare.

The effects of increased individual savings on the stock market can be either good or bad, depending on the levels and duration. Higher savings/low expenditures can help dampen demand-pull inflation, which makes it possible for the Federal Reserve to ease monetary policy. Higher savings, insofar as they lower interest rates, reduce the reliance on foreign capital to finance the budget deficit. And higher savings will add to the pool of capital available to invest in equities and, therefore, help raise stock prices.

On the other hand, too-high personal savings can be ruinous to corporate profits (which, in turn, can torpedo stock prices). If savings remain high enough long enough, they can lead to a recession—or worse. A little home-grown research shows that since the end of World War II, whenever the annual personal savings rate exceeded 7.5%, the economy got into trouble.

Mr. Greenspan and his colleagues know this better than I do. As much as they dislike inflation, you can be certain that they will opt for rising prices over a rerun of the 1930s. Nevertheless, for the time being, they are likely to let the savings rate edge higher and risk flat-to-down GNP growth for a quarter or two until they are convinced that they have wrung as much inflation out of the economy as they can without causing serious harm.

As you know, I have remained steadfastly bullish for many months. While I am still optimistic longer term, I think the DJI is going to have to wait until next year before it can significantly pierce and hold 3000. It could be wise to have some cash on hand to take advantage of buying opportunities over the next few months. Third-quarter earnings could be surprisingly poor for some companies, as slow-growth approaches no-growth in the July to October period.

I still like the ten companies mentioned in my last column *(June 25)*, particularly *Tiffany* (45), *Kellogg* (63) and *Kimberly-Clark* (71). Add to this list as attractive *Equifax Inc.* (19), the world's leading source of computer-based information services and systems to facilitate consumer financial transactions. EFX recently announced plans to acquire Telecredit. If the deal goes through, it looks like a good buy for Equifax. If not, EFX could recover to its predeal price.

Speaking of acquisitions, if the unexpected offer of Philip Morris to purchase Jacobs Suchard is finalized, then I think it is possible that MO might go after *Quaker Oats* (48) next with the cash remaining in its diversification account. OAT will show lower operating earnings per share for the fiscal year ended last month and could be an inviting target. If for any reason the Suchard deal is derailed, then *Campbell Soup* (57) would be back as a potential Philip Morris acquiree. And who's to say CPB and OAT aren't already on some other company's buy list? ■

Ann C. Brown is chief executive officer of the equity advisory and portfolio consulting firm of A.C. Brown & Associates.

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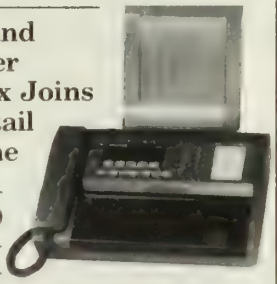

The new Toshiba Model 3450 facsimile machine introduces a facsimile with memory for broadcasting and out-of-paper reception capabilities. With up to 50 broadcasting locations possible, the Model 3450 allows a business to instantly forward any type of communications to their satellite offices or customer locations. The 16 shades of gray scale is perfect for sending photographs. Delay transmit capabilities allow transmittal of broadcast information during the low-cost calling periods. If the paper roll runs out, the machine simply stores the incoming documents in memory and prints them out when the paper roll is replaced. Suggested retail price $1,495. For more information, call (800) 272-7997.

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Wall Street has become so obsessed with numbers that it has forgotten what really matters in business: people and position.

DAD, YOU WERE RIGHT

By Kenneth L. Fisher

Society has become too quantitative lately in all aspects, but particularly in stock analysis. The real value added in the 1990s will be in qualitative stock selection.

As a green college graduate I was trained by my father to analyze quality. That was his obsession. He was an un-numbers man. No charts or tables. When he had to deal in numbers, he used an old hand-crank adding machine. What interested him then and interests him still is quality—what could be called the two "Ps," people and position. Meaning, how good are the people? And how well is the firm positioned in its field? No matter how good the numbers looked, he wasn't interested in a stock unless he saw exceptionally skilled and dedicated people running a firm with natural competitive advantages.

Not that quantitative analysis didn't have its day. When computer power was hard to get, there was a real value in number crunching. I remember paying a major brokerage firm $15,000 in the mid-1970s for a one-time computer ranking of the New York Stock Exchange stocks with the lowest price/sales ratios. It was a bundle for me then, but it was worth it to get the cheap-stock ideas no one else would have—giving me a competitive advantage.

Today, for about $350 a year you can get a floppy disk each month that will do that, plus dozens of different screens you can set to your own parameters. It's all so cheap. Now, for about $50,000 a year, which isn't much more than my $15,000, adjusted for inflation, our firm buys the top-of-the-line Compustat product, which runs on a PC and allows screening I never imagined possible just a few years ago—like screening by market share—plus literally hundreds of precise user-determined screening factors combined any way I want—plus statistical back-testing.

Not surprising, its being so cheap, that most stock analysis today is quantitative. Most investment management firms are buying low P/ES, or in my firm's case, low price/sales ratios or low price to cash flow—or low something to something. One new fad is high historical dividend yield. Another is "asset allocation models" that tie valuations to interest rates and technical analysis to create electronic market timing—all quant driven. The quants rule Wall Street.

It's hard to find green college graduates who even want to do qualitative stock analysis. Too unscientific. They're all brainwashed by their professors to believe they are supposed to do quantitative work, dealing with output and data and statistical techniques. The catch 22 is, since quanting is now so common, it's less important.

You can see the result in valuations. A pretty big chunk of the market used to sell for less than half the market's average valuation and an equally big chunk sold for twice the market's valuation. A statistician would say the Gaussian distribution around the mean was relatively flat. You could make money in that era simply buying the low-priced stocks and selling short the high-priced ones. Regression to the mean would give you a nice profit. But today fewer stocks are at steep premiums or discounts. The quants have picked over both ends. The few steep discounts tend to be bad companies that deserve it.

So how will one make money in the 1990s? By making smart judgments on the two "Ps"—people and position, and separating the superior from the mediocre. Is management determined and movitated? Are their sales skills top-notch? Ditto for motivational skills? How deep is management?

Then, what is the firm's cost position relative to competitors? Is there growing demand for its products? What makes it hard for competition to outdo the firm? Does it dominate, based on geography, brand name or special niche?

Here then are three modestly priced, relatively unpopular stocks I think have good quality and will shine in the 1990s. These all rank high in people power.

Family Dollar (14) has a cookie-cutter, low-price retailing format for America's tiniest towns. There are plenty of them for Family Dollar to grow into, but the stock isn't priced at growth valuations.

Seagate Technology (14, o-t-c), too. It used to be tiny with a huge valuation. Now, at $2.8 billion in revenue, it is the big kid on the disk drive block—for micro- and mini-computers—and it's the low-cost producer. All that means good growth. And its chief executive, Al Shugart, is a living legend in the industry. Yet, it sells at only modest valuations, by any standard.

U.S. Shoe (25) is strong in shoes and specialty retailing, but you can justify the stock essentially off Bannus Hudson's LensCrafters division—the newly dominant eyewear vendor you see on TV. You get the rest of U.S. Shoe virtually free.

Yes, numbers still matter. But I think we will soon return to a time when Wall Street relearns an appreciation for the two "Ps"—quality in management people and strategic position. Quality, not quantity. ■

Kenneth L. Fisher is a Woodside, Calif.-based money manager. He has written two books: The Wall Street Waltz *and* Super Stocks.

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Source: INRA - Vision Readers' Profile December, 1989.

Famed professor Burton Malkiel is a dyed-in-the-wool believer in the random walk. But is this heresy in his latest book?

A WALK WITH MORE PURPOSE

By Mark Hulbert

Like wars that are supposed to end all wars, investment books are often advertised as the last word on their subject. And with about as much validity.

Princeton Professor Burton Malkiel's *A Random Walk Down Wall Street* is widely regarded as a classic. Its first edition was published in 1973. Its thesis was that the market was so efficient that a blindfolded monkey throwing darts at a newspaper's financial pages could do just as well as the experts. If this thesis were correct, there would have been no reason for a second edition.

But, lo, Malkiel has just published a fifth edition (W.W. Norton, $22.95), subtitled *The Book for the 1990's Investor.* Malkiel remains rhetorically committed to the idea that the market is efficient. But a close comparison of his various editions reveals that he has actually made subtle changes to accommodate the growing body of evidence that it isn't. Now, a major change, there's a whole new chapter devoted to the market's inefficiencies.

Acknowledging the existence of inefficiencies—or anomalies—isn't easy in a book ostensibly about the market's unbeatable efficiency. It requires Malkiel to perform some tortuous mental gymnastics. For example, at one point he writes that "professional investment managers are not able to outperform the broad market averages." Yet, elsewhere in the book, he favorably profiles the personalities and strategies of successful professional managers such as John Templeton, John Neff and Dean LeBaron.

But why, given that these folks aren't supposed to be able to do better than the blindfolded monkeys? "I may be a mostly random walker," Malkiel responds, "but I am also a gambling man, and there is much to be said for placing at least some of one's bets on these [managers' mutual] funds than on the market as a whole." Kind of like a fellow who doesn't believe in God but goes to church just on the chance. . . .

Malkiel tries to play down the tension between his rhetoric and reality by retreating to the long term. The existence of inefficiencies doesn't pose a threat to his belief in the market's overall efficiency, he explains, because all that that belief requires is the eventual disappearance of those inefficiencies. He's saying that a stock or group of stocks could be undervalued for a while but that eventually the market would end the undervaluation.

Big deal. We know that already. It would have been more straightforward to say that inefficiencies exist, if briefly, and can be worth seeking.

One of the most famous of these anomalies is an investment letter: the *Value Line Investment Survey*'s rating system. Numerous academics have confirmed that it has been able to beat the market over long periods. In his fourth edition, Malkiel did briefly allude to the *Value Line* phenomenon, but added that *Value Line*'s mutual funds weren't doing well, an irrelevance since they are managed on different principles than the *Survey.* In his fifth edition, he ignores the *Value Line* anomaly altogether.

Malkiel ignores the existence of all the market-beating investment letters. For example, besides *Value Line,* Martin Zweig's *Zweig Forecast* has beaten the S&P 500's total return over the last ten years. And its portfolio was also less volatile than the market as a whole. (I point this out to head off the efficient market dogmatists' response that any above-market return must have been achieved by taking on abnormally high risk.)

Another pair of outstanding examples: Louis Navellier's *MPT Review* and James Collins' *OTC Insight,* both of which have beaten the S&P 500's total return over the last five years, despite a focus on the secondary stock sector, which has seriously lagged the blue chips.

Will the market's efficiency eventually catch up with these newsletters, as Malkiel implies? Quite possibly. But that wouldn't mean these newsletters' achievements were insignificant. And Malkiel should agree. After all, in his editions in the 1970s, Malkiel himself was recommending closed-end investment companies because their stocks were trading at large discounts to their net asset values—and his advice was very profitable. Though this strategy is no longer as attractive, he is not about to dismiss his success as simply luck. He found a genuine anomaly and acted upon it.

Investment letters are peculiarly suited for seeking out anomalies—instances of inefficient pricing. Unlike institutional investors, they are not encumbered by investment committees with their herd instincts. And with so many letters attempting to discover new inefficiencies, there is a good chance that some will succeed.

Maybe Malkiel will notice this in his sixth edition, though unfortunately, it seems that in academic life few are ever convinced of new ideas: The older professors just fade away. In spite of what he writes, Malkiel seems ready to concede that the market can be beaten, but he just won't admit it openly. ■

Mark Hulbert is editor of the Alexandria, Va.-based Hulbert Financial Digest. *His newest book is* The Hulbert Guide to Financial Newsletters *(Probus Publishing).*

For seven years, there has been little pressure to change gears on tax policy. But 1990 is looming as an inflection point.

TAX HEDGE FOR THE NINETIES

By Charles E. Babin

Now that an economic slowdown and a runaway S&L bailout threaten to blow the federal deficit sky-high, investors have reason to worry that President Bush will break his campaign pledge and raise taxes. A recent *Wall Street Journal*/NBC News poll reported that 89% of surveyed voters foresee an increase this year, with two-thirds of them favoring an income tax hike on the wealthy. If they are right, fixed-income investors should focus on municipal bonds.

When it comes to investment strategy, it pays to keep an eye on tax policy. After all, only aftertax returns count. There's no mystery why muni bonds, with their inferior yields, appeal to upper-income investors: Interest paid on them is exempt from federal taxation. Many escape state and local income tax as well.

The attraction of municipals is tied to their "equivalent" taxable yield (the tax-exempt yield expressed as a pretax equivalent using the investor's marginal tax rate) compared with taxable securities. Other things being equal, reducing tax rates lowers equivalent yields and narrows the differential between tax-exempt and taxable bonds. The reverse also holds.

When President Reagan took aim at a highly progressive income tax structure in 1981, he succeeded in condensing some dozen brackets and a maximum rate of 70% to three brackets with a top rate of 33%. As shown in the table, the impact on equivalent yields was significant. While muni yields dropped a smidgen from their 1980 level, equivalent yields plummeted. Risk-adjusted, the spread between municipals and Treasury yields was all but erased.

For fixed-income investors, failure to get it right on taxes can bag an otherwise sound decision. Imagine an investor who expected his tax rate would average 70% during the 1980s. The choice would have been a "no-brainer." Ex ante, Treasury yields on the order of 23% would have been required to generate the same ten-year income stream. But ex post, results fell short of expectations. The Reagan tax cuts would have lowered his average tax rate to less than 50%, eroding the benefit of tax immunity and scuttling the opportunity to pocket sizable excess income over Treasurys.

Taxes and muni bond yields

Year	Muni average yield[1]	Marginal tax rate[2]	Equivalent yield	Treasury average yield[3]
1980	6.96%	70%	23.20%	11.41%
1985	8.07	50	16.14	10.63
1989	6.67	33	9.95	8.50

[1]New ten-year AAA general obligations. [2]Maximum statutory tax rate [3]New ten-year U.S. Treasury notes. *Yield data source: First Boston*

What's more, prior to tax reform, the tax rate of indifference—the rate which equalizes aftertax returns and sways decisions—was 39%. Today it's hovering around 22%, suggesting that muni bonds are appealing to taxpayers in the 28% bracket. Had the tax rate of indifference remained constant, muni yields around 5.2% would have been consistent with 1989's average Treasury yield, and muni bondholders would have profited.

What happened to the muni market during the 1980s could flip-flop in the 1990s. The key is a burgeoning federal budget deficit. And on this score, the health of the economy is critical. A robust economy helps the budget by stimulating tax revenue through increased employment and higher incomes, and by reducing outlays for welfare and unemployment-related benefits. The post-1982 economic boom provides a perfect example. Starting from a deficit equal to 6.3% of GNP—the biggest since 1946—the budget crisis improved dramatically by 1989 (2.9% of GNP).

The bottom line is that, for seven years now, there has been little pressure to change gears on tax policy. But 1990 is looming as an inflection point. First-quarter real GNP growth was an anemic 1.9% and the full-year prospect is bleak. Already policymakers, including the President, are worried. They now see a budget spinning out of control. According to Treasury Secretary Nicholas Brady, the impact of the current housing recession on S&Ls alone could add more than $300 billion to the federal deficit during the 1990s.

Just days ago, George Bush admitted that he's having trouble keeping his finger in the tax dike. Even if he sticks with today's income tax rates, incentives to buy muni bonds could improve. Remember, today's max 33% tax rate reverts to 28% when taxable joint income exceeds roughly $160,000 (about $100,000 for single filers). So, the biggest incomes escape the highest tax rate. Ironically, Mr. Bush could increase tax revenue without raising tax rates by eliminating reversion. Longer term, though, it's a good bet rates—and equivalent yields—will move higher. ■

Charles E. Babin is managing director of BRS Capital Management, Inc., an investment management firm, in Boston.

VANITY FAIR

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strongly feels that the current economic program of Poland's Solidarity government, which is rapidly boosting unemployment and has lowered people's already meager living standards by 30%, is flawed.

Experts say that only a crushing recession could curb Poland's hyperinflation. Walesa isn't convinced that austerity is the only answer.

"The West is looking at us in the wrong way. In the West, when there's recession, [it means] you have overproduction. Here, it's not a question of overproduction, it's underproduction. We shouldn't be trying to lay off workers or close down factories, but to open up the possibilities to allow workers to go to better-paying jobs. They will then leave companies that don't pay a good wage."

Division in Solidarity Pits Walesa Against Allies of Poland's Premier
— New York Times

Walesa acknowledges that many of these unprofitable, state-owned companies "will never be economically effective." But he thinks there ought to be alternatives for these people other than the bread line. "Sometimes people in the West don't see we have to build a completely different economy." How?

Walesa wants the government and Western banks to encourage the creation of "hundreds of thousands of small factories and businesses in every village—bakeries, butcher shops, dairies, different kinds of repair shops. That's the kind of Poland that should come into existence. Believe me, the money for those kinds of activities is here in Poland. [Many] Poles have some dollars stashed away someplace. Poles would be happy to buy a machine that would help them become a baker."

Glen Davis

The combination of hidden dollars and Western credit would revive the economy via small enterprises. "Believe me, there would be tens of thousands of these small jobs. The government would be happy because it would be able to get a percentage in tax money."

Some of these small businesses would evolve into bigger ones. "Having their capital, they'd be able to join together and form corporations."

But you need the small before you can get the big. "You have to have a cent before you can have a dollar. A proper mechanism would start to get the proper kinds of economic forces going. Workers for these huge state companies would simply leave their jobs and go to work for these small private companies. They'd just go from the old car to the new one."

Poland's hyperinflation? Walesa would have sold "some of our factories or stores to people. We would have destroyed the inflation" by soaking up excess money. "Then people would be the owners of our factories and stores. Then they would have to produce and start paying taxes. Now we've overcome the inflation [through harsh austerity] and, unfortunately, all the businesses are still in the hands of the government."

Walesa is sensitive to the charge that his criticism of the government is motivated only by personal ambition, that by creating divisions he's harming the nation.

He contends his activities help to create political pluralism and avoid the emergence of a new authoritarian regime. "How many beautiful revolutions have there been? When dictators have been overthrown, the revolutionaries took over and sometimes turned out to be worse than the former rulers. Why might it not be the same here? I am so afraid of anything to do with monopolies. Poland is threatened right now by monopolies, and we can't let that happen.

"Our attempts to fight for forms of pluralism cannot be identified with anarchy or with destabilization. I am preparing to allow more of our nation to get involved, to sort of force these gentlemen [leaders of Poland's Solidarity government] to move more in a pluralistic direction."

He isn't worried that his Solidarity colleagues in the government are anything but democrats. "I don't see any danger coming from them at all. But what happens when they leave the political stage? Our reform in Poland still hasn't managed a vital victory. [We have] to make sure the victories we've got so far get enshrined permanently; they will be part of the permanent pluralism."

Walesa is angry that the government hasn't done more to remove old, onetime communist bureaucrats from positions of influence, even if they are supposedly efficient administrators.

"They [the Solidarity government] didn't really take advantage of the opportunity at the moment when the Communist Party dissolved in January to sort of clean house. Maybe from a technical point of view that's not the best way to do things because it would be quite a mess just to throw everyone out. But now we're demanding that our society make sacrifices. A society needs to see the faces [of its leaders]. Those same people who were there before [steadily] destroyed everything they touched. These people had a good life [at the expense of the people] and here they are trying to correct what they did wrong. Why are they still there?"

Lech Walesa's future? Sometime next year, Walesa will become President of Poland. He is still very much a figure to be reckoned with.

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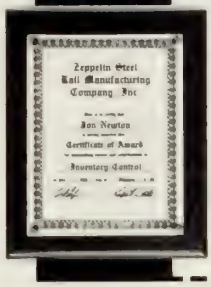

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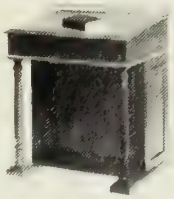

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Streetwalker

Edited by Thomas Jaffe

Secret control

As the commuter train rattled across Westchester toward Grand Central Terminal, one of Wall Street's brighter lights confided to Streetwalker: "You know what's happening? The 13-D players of yesterday are now buying up big positions in distressed bonds."

But of course. The capital markets are busily adjusting. The raiders' and restructurers' old turf, the equity market, is at an alltime high. Besides, there are always poison pills, shark repellents and a vigilant Securities & Exchange Commission to contend with if you're buying up large blocks of equity.

By contrast, the junk bond market has crashed. Not only are the prices right, so are disclosure requirements. Whereas any person or group that buys 5% or more of a company's stock or other securities with voting rights (i.e., bonds convertible into equity) must publicly disclose the action in a 13-D filing, a raider can buy as much of a company's debt securities as he wants with no disclosure requirements whatsoever. "What you're going to be seeing," says our source, "is smart people buying 30%-plus blocking positions [in a company's debt] and trying to force reorganizations outside of bankruptcy."

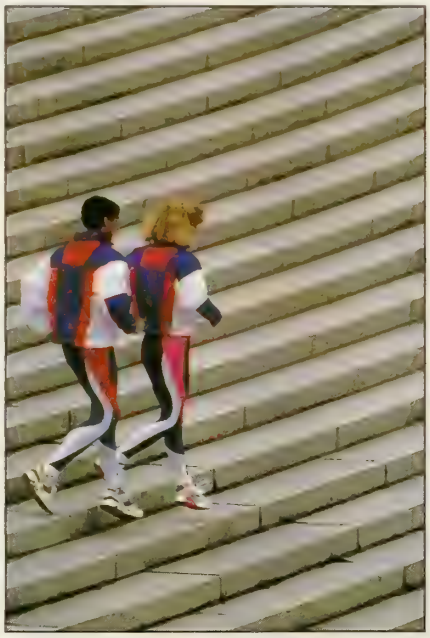
Has anyone done anything yet? Acadia Partners, backed by Robert Bass and Equitable Life, has been picking up Easco Corp. bonds (FORBES, *May 28*). Streetwalker hears rumors that Carl Icahn is very interested in the distressed bonds of Leaseway Transportation, and that Irwin (The Liquidator) Jacobs has his eyes on Miramar Marine's bonds (in neither case could we ascertain which issues, but then this is not a game for the amateur investor).

On a closely related front, interest is building in the nearly $5 billion (face value) junk bond portfolio of Columbia Savings & Loan, put together by Michael Milken's old friend Thomas Spiegel. The portfolio, whose estimated market value is about $3 billion, consists of big positions in the junk bonds of scores of companies, few of them widely known. The government's Office of Thrift Supervision, aided by First Boston Corp., is in the process of auctioning the portfolio. Terms: 10% down and the government will take a nonrecourse note for the rest. Some smart people stand to get very rich, relative to the risk, on this one.—**Lawrence Minard**

The next shoe to drop?

Nike, Inc., the sneakermaker from Beaverton, Ore., was recently at 77¾ o-t-c, not far off its alltime high. Analyst Gary Jacobson of Kidder, Peabody likes the company but thinks the stock is fairly and fully valued.

At first blush, $2.2 billion (estimated sales) Nike looks to be going great guns. The stock has nearly quintupled since 1988. Philip Knight, the company's chairman (he owns 34%), is now worth $1 billion on paper. Jacobson estimates that earnings for the fiscal year ended May 31 were up 42%, to $6.35 a share. This, on top of a 64% gain the year before.



Running up?
Nike's stock already has.

But unit growth is slowing in the athletic footwear market; earnings are being fueled increasingly by price increases. More important, sneaker buyers are notoriously fickle. Nike's sales are heavily skewed to performance sneakers, and within that, to men. Even though Nike accounts for 26% of the overall U.S. sneaker market, its share of the men's niche is more like 45%.

While this has brought the company three straight years of huge success on the heels of its Air line, tied to basketball star Michael Jordan, Jacobson notes that sales of fashion-oriented sneakers to women remain disappointing. His concern: If the air goes out of Air, Nike's earnings growth may slow.

Jacobson thinks Nike will earn $7 a share in the fiscal year ending May 31, 1991. Nike's earnings had better not disappoint, says he. Otherwise the company may find, as L.A. Gear recently did, that mercy is in short supply on Wall Street.

Still out of focus

Has Eastman Kodak Co. finally learned to dance? The $18.4 billion (sales) company has a tough new chairman, Kay Whitmore. But analyst Donald Zwyer of Kidder, Peabody is telling clients to sit this dance out.

Last year Kodak, recently trading at 41¼, earned $3.32 a share (excluding a $549 million, or $1.69 a share, restructuring charge). Zwyer thinks earnings will be flat this year and looks for only $4 a share in 1991, which would still put Kodak below the $4.31 it earned in 1988. That year, however, Kodak was helped by the inclusion of profits from Sterling Drug, which it acquired in 1988 for over $5 billion. In 1988 the health division had operating profits of $591 million on sales of $3.6 billion. But Zwyer thinks its 1990 operating profits will be just $600 million on sales of $4.2 billion, with only modest improvement expected in 1991.

Meanwhile, chemical and information systems profits are sluggish. Even photography-related sales have slowed. Finally, there's the matter of the amount—still to be decided—that Kodak must pay Polaroid to settle the patent infringement suit it lost; estimates run around $2 billion.

What concerns Zwyer even more is Kodak's weak cash flow. Last year cash flow after capital spending barely covered Kodak's $2-a-share dividend. But Zwyer estimates that in 1990 Kodak's distributable cash flow will be considerably less. The balance sheet, meanwhile, already shows $7.3 billion of long-term debt (as of Mar. 31), or 52% of total capital.

Kodak could cut its $2.1 billion cap-

ıding budget. Or it could sell tion systems, which would y entail another writeoff. Or it ve up the ghost on Sterling. In nore restructuring, and no rearush into the stock.

ıittaker whets the /histle

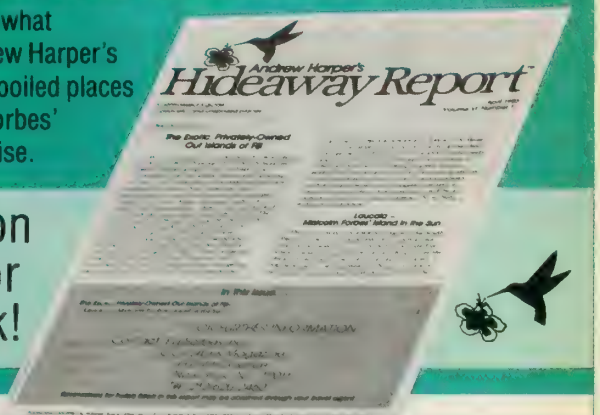
Last June, after rejecting a buyout offer, Los Angeles-based Whittaker Corp. restructured itself to escape further attacks. In exchange for each share, stockholders received $40 in cash plus a "stub" share in the new Whittaker, valued at about $10. In the process, diversified Whittaker took on $300 million of long-term debt that it planned to pay down by selling assets that used to account for 60% of its $500 million in sales.

How's the new, recapitalized Whittaker—recent NYSE price of 10¾—faring? Splendidly. Over the past year it has raised $320 million through divestitures. Whittaker also has been talking with real estate interests about developing the 1,000 acres it owns in the Saugus/Newhall area 15 miles from downtown Los Angeles. Meanwhile, its remaining $66 million of debt has been refinanced.

Whittaker now has two primary businesses: aerospace and biotechnology. Aerospace is mainly a supplier to the commercial aircraft industry. It has a lucrative contract to manufacture the hydraulic system for Boeing's 767 jets. It also makes electronics software and control systems for defense applications. Biotechnology is composed largely of diagnostic products, including one for the detection of Lyme disease. Sales for both groups are growing a respectable 10% a year, with operating margins running at nearly 20%. In 1989 Whittaker had operating earnings of $41 million on $210 million of sales.

According to analyst Larry Selwitz of Newport Beach, Calif.-based Cruttenden & Co., Whittaker will earn only around 30 cents a share in 1990, thanks to restructuring costs and to high interest costs during the first two quarters. But next year Selwitz expects earnings to exceed $1.50 a share, as it generates more than $2.50 of free cash flow. With the stock selling for just seven times anticipated 1991 earnings, Selwitz thinks it's a dandy buy. Gruss Partners (FORBES, *Jan. 8*) owns 12% of the 8.3 million common shares outstanding; management, led by Chairman Joseph Alibrandi, owns another 19%.—**Rita Koselka**

"This is the way you always imagined the South Pacific to be" Read what Andrew Harper's exclusive guide to unspoiled places says about Malcolm Forbes' exotic Fiji Island paradise.



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"Taken as a whole, Fiji is perhaps the most idyllic and hospitable archipelago in the South Seas, its essence springing right from the heart of unpretentious people whose enthusiastic greetings of 'bula' are a reflection of the welcome and care extended to visitors.

"This is the way you always imagined the South Pacific to be – an unspoiled, once-upon-a-time tropical isle seen by very few people outside Fiji since it was first spotted by Captain Bligh from the decks of the *Bounty* two centuries ago. Situated 200 miles out to sea northeast of Nadi, Laucala is the lushest, remotest and most exclusive of all the destinations in this corner of the world. The island is ringed by impressive coral reefs, shell-strewn beaches and a beautifully manicured coconut plantation whose terrain rises upward to a mountainous interior rife with giant ferns, mango trees and wild birds. . . .

"It was only recently a decision was made to share this unique spot with compatible travelers capable of appreciating the charm and unhurried atmosphere such a pastoral sanctuary can offer. Peace and privacy, of course, are still paramount, so don't expect to find a traditional full-blown social resort, but rather an intimate cottage colony accommodating no more than 8 guests in residence at any one time.

Meals are a delight here, beginning with breakfast prepared by a cook and housekeeper in the privacy of your own bungalow at any hour you wish. Dinner and lively conversation are enjoyed at the atmospheric Plantation House . . .

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"It's always satisfying to uncover an idyllic island these days that is still pretty much the way it has always been, and even nicer when you realize the owner is determined to keep it that way. Very, very special – particularly for those who want to sample a relaxing tropical lifestyle that is fast disappearing in the South Pacific . . ."

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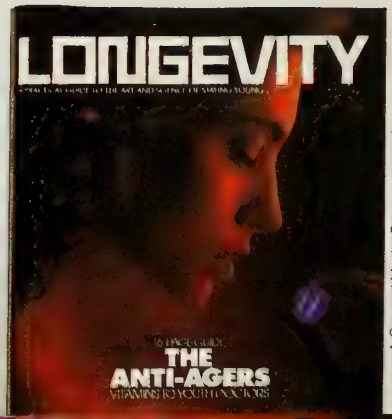

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Flashbacks

Edited by Dero A. Saunders

"The more things change. . . ."
Items from past issues of FORBES

Seventy years ago in FORBES

(From the issue of July 20, 1920)

"**Both presidential nominees** [in the 1920 election] began as 'printers' devils.' Neither had parental wealth or influence behind them. Nor did either graduate from college with any letters after their names. They started life in no teeming metropolis amid innumerable opportunities for gaining distinction. They were 'country boys.' Yet . . . one of them is destined to elevation to the rulership of the greatest country in the world."

"**The publishers of FORBES** are very glad to be able to announce that they have acquired the ODD LOT REVIEW, the well-known weekly devoted chiefly to investment and financial matters. The purchase of this vigorous, progressive periodical adds 5,900 investors, bankers and businessmen to the circulation of FORBES [which] reaches a far larger number of executives and other responsible businessmen of America than any other publication of its kind in the country."

Sixty years ago

(From the issue of July 15, 1930)

"**Unquestionably** the outstanding act of the recent congress was the Hawley-Smoot Tariff Bill, which was finally passed after a long struggle. . . . Dissatisfaction with the bill is still fairly general, and it is almost certain that President Hoover is considering appointment of a special tariff board to recommend changes under the powers of limited revision."

"**Orders** have been placed by the French Line for the building of a new giant Atlantic liner with the St. Nazaire Shipbuilding Works, where a slip of the large dimensions required has been under construction for some time. The new liner is to be over 60,000 tons displacement and will be 991 feet long and with a beam of 110 feet. Her turbines will produce 120,000 horsepower and her speed will be 28 knots."

Fifty years ago

(From the issue of July 15, 1940)

"**I cannot believe** that Hitler will outdo Napoleon. Anyone who believes in the eternal verities, who believes that right is greater than might, that mercy transcends mercilessness, cannot but have faith that Hitlerism will meet its Waterloo. . . . Every overvaulting military conqueror, from dawn of history, from Ghenghis Khan to Napoleon, 'has had his day and ceased to be.' Since all their attempts at dictatorial dominion have failed, is Adolph Hitler remotely likely to succeed?"

—B.C. Forbes

"**As war clouds gather** over the Dutch East Indies, major source of U.S. tin, J.P. Gill, president of the American Society of Metals, sees a silver lining for every tin can in the country. Says he: 'The additional cost of plating containers with silver instead of tin might add a few cents to the price of a can of beans. But what of that? We can get along without tin, but not without cans.' "

Twenty-five years ago

(From the issue of July 15, 1965)

"**The last place** [investors seeking growth companies] would look would be auto parts. Yet consider this: Gulf & Western Industries is one of the fastest-growing publicly owned companies in America, and it's in the business of distributing parts for aging autos. 'This is an $8 billion industry,' says G&W Chairman Charles G. Bluhdorn, 'but it's completely misunderstood.' "

Gulf & Western's Charlie Bluhdorn

"**More and more** corporations are raising money through private placements. Since 1953 these placements have soared 114% to $6.9 billion, while the amount of debt floated publicly has actually declined. Through May of this year, private placements were running close to 40% ahead of last year's pace."

Ten years ago

(From the issue of July 21, 1980)

Pablo Picasso's "Acrobat Seated With Arms Crossed"

"**When a Picasso** went for $3 million at auction recently, it seemed to me incredible. And even after seeing that fabulous retrospective of 900 of his works organized by New York's Museum of Modern Art to celebrate its 50th anniversary, I still find that price unreal."

—Malcolm Forbes

"**This year,** for the first time, foreigners touring the U.S. will outnumber Americans touring abroad. The dropped dollar will cut our vacationers abroad to 8 million, says the U.S. Travel Service, while, as a result of the same dropped dollar, 8.2 million will visit here—not including Mexicans and Canadians."

"**General Motors,** already the automotive king of the road, will become even more dominant by the mid-1980s, a Wall Street auto analyst told the Senate. By 1985, said Paine Webber's Maryann Keller, GM will be 'the only auto company in the world capable of building a full range of cars and trucks.' . . . As for Chrysler, [she] thinks a tie-up with a foreign company might save it. . . ."

Thoughts on the Business of Life

In the United States there is more room where nobody is than where anybody is. That is what makes America what it is.
GERTRUDE STEIN

This one makes a net;
This one stands and wishes.
Would you like to bet
Which one gets the fishes?
CHINESE RHYME

Public opinion is a weak tyrant compared with our own private opinion.
HENRY DAVID THOREAU

Conscience: A small, still voice that makes minority reports.
FRANKLIN P. ADAMS

It is pleasant to be transferred from an office where one is afraid of a sergeant-major into an office where one can intimidate generals, and perhaps this is why history is so attractive to the more timid among us.
E.M. FORSTER

Mysteries are not necessarily miracles.
GOETHE

Whenever the literary German dives into a sentence, that is the last you are going to see of him until he emerges on the other side of his Atlantic with his verb in his mouth.
MARK TWAIN

He who can see three days ahead will be rich for three thousand years.
JAPANESE PROVERB

Artists who have won fame are often embarrassed by it; thus their first works are often their best.
LUDWIG VAN BEETHOVEN

If you don't know what you want to do, it's harder to do it.

Keeping score of old scores and scars, getting even and one-upping, always make you less than you are.

If you've had a good time playing the game, you're a winner even if you lose.

The hardest work of all: Doing nothing.
MALCOLM FORBES

I hate housework! You make the bed, you do the dishes—and six months later you have to start all over again.
JOAN RIVERS

A financier is a pawnbroker with imagination.
A.W. PINERO

Most people are quiet in the world, and live in it tentatively, as if it were not their own.
E.L. DOCTOROW

Gray hair is a sign of age, not wisdom.
GREEK PROVERB

More than 9,000 "Thoughts," indexed by author and subject, are available in a three-volume boxed set at $49.50 ($19.50 per volume if purchased separately). Also available, a one-volume edition of over 3,000 "Thoughts." Price: $19.50. Send check and order to: Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Add sales tax on orders in New York State and other states where applicable.

The English are no nearer than they were a hundred years ago to knowing what Jefferson really meant when he said that God had created all men equal.
G.K. CHESTERTON

God sells us all things at the price of labor.
LEONARDO DA VINCI

Every blade of grass has its spot on earth whence it draws its life, its strength; and so is man rooted to the land from which he draws his faith together with his life.
JOSEPH CONRAD

A Text. . .

Yea, if thou criest after knowledge, and liftest up thy voice for understanding; if thou seekest her as silver, and searchest for her as for hid treasures: Then shalt thou understand the fear of the Lord, and find the knowledge of God.
PROVERBS 2:3-5

Sent in by Pauline Roberts, Lehi, Utah. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

Men never cling to their dreams with such tenacity as at the moment when they are losing faith in them, and know it, but do not dare yet to confess it to themselves.
W.G. SUMNER

If somebody tells you you have ears like a donkey, pay no attention. But if two people tell you, buy yourself a saddle.
SHOLEM ALEICHEM

The Open was first played on the links of the club where the idea for it originated: Scotland's Prestwick.

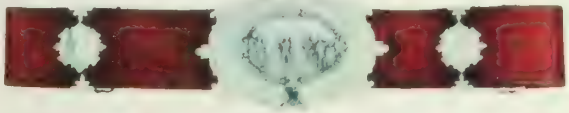
It was 1860, the year Prestwick's members put up 30 guineas for a morocco leather and sterling silver challenge belt to be claimed by the winner.

Scotsman Willie Park captured the title and the prize that inaugural year. He was one of only eight golfers who played three rounds over the twelve-hole course.

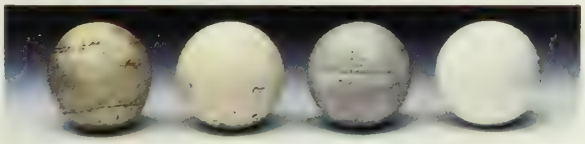
From such modest beginnings evolved a tournament that became not only a repository of golf tradition, but a catalyst for innovation as well.

Multiple-winner Seve Ballesteros with The Open Cup.

The British Open. Many hallowed traditions, one official timepiece. Rolex.



The original Open Challenge Belt.



Left to right: Feather-stuffed "Feathery," gutta-percha "Gutty," tension-wound rubber "Haskell," rubber-cored "Haskell."

The Royal and Ancient Golf Club of St. Andrews, site of the 1990 British Open.

The now universal championship format of four rounds of eighteen holes had its origins at the 1892 Open. And the precursor of the modern golf ball, the rubber-cored Haskell, first won acceptance at the 1902 match.

Today, though the challenge belt has long since been replaced by a cup, other Open traditions endure. As always, the championship is still contested under the challenging conditions of a seaside course.

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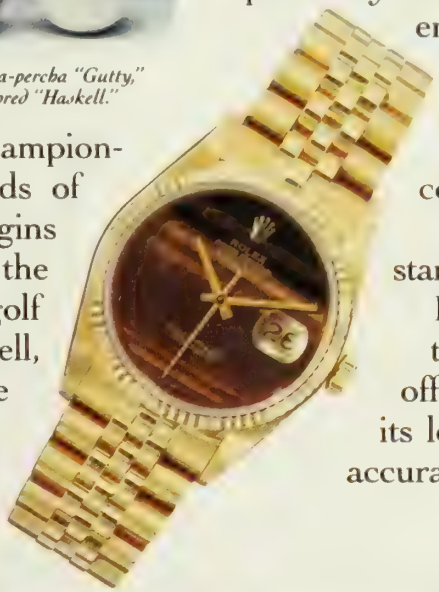

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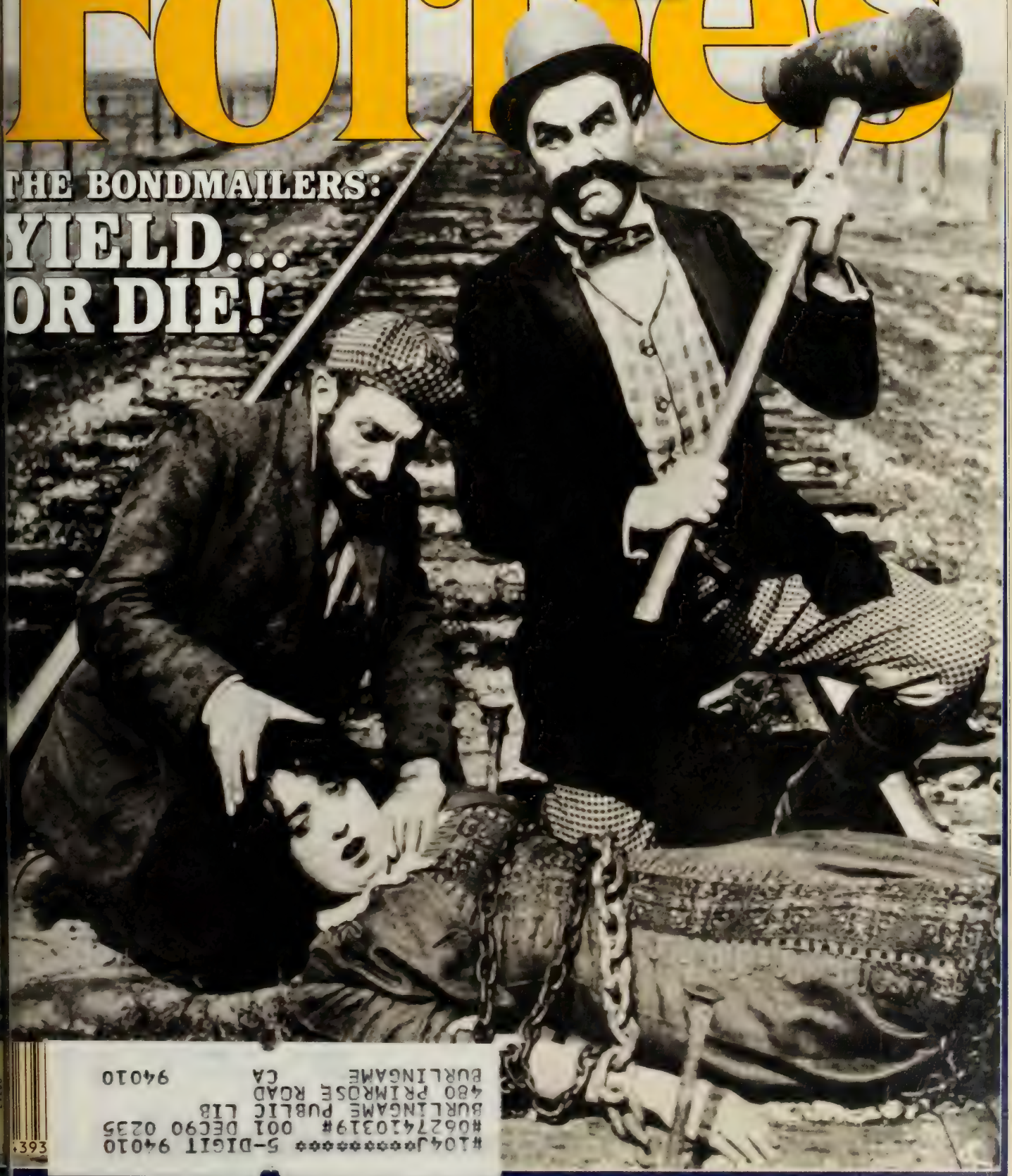

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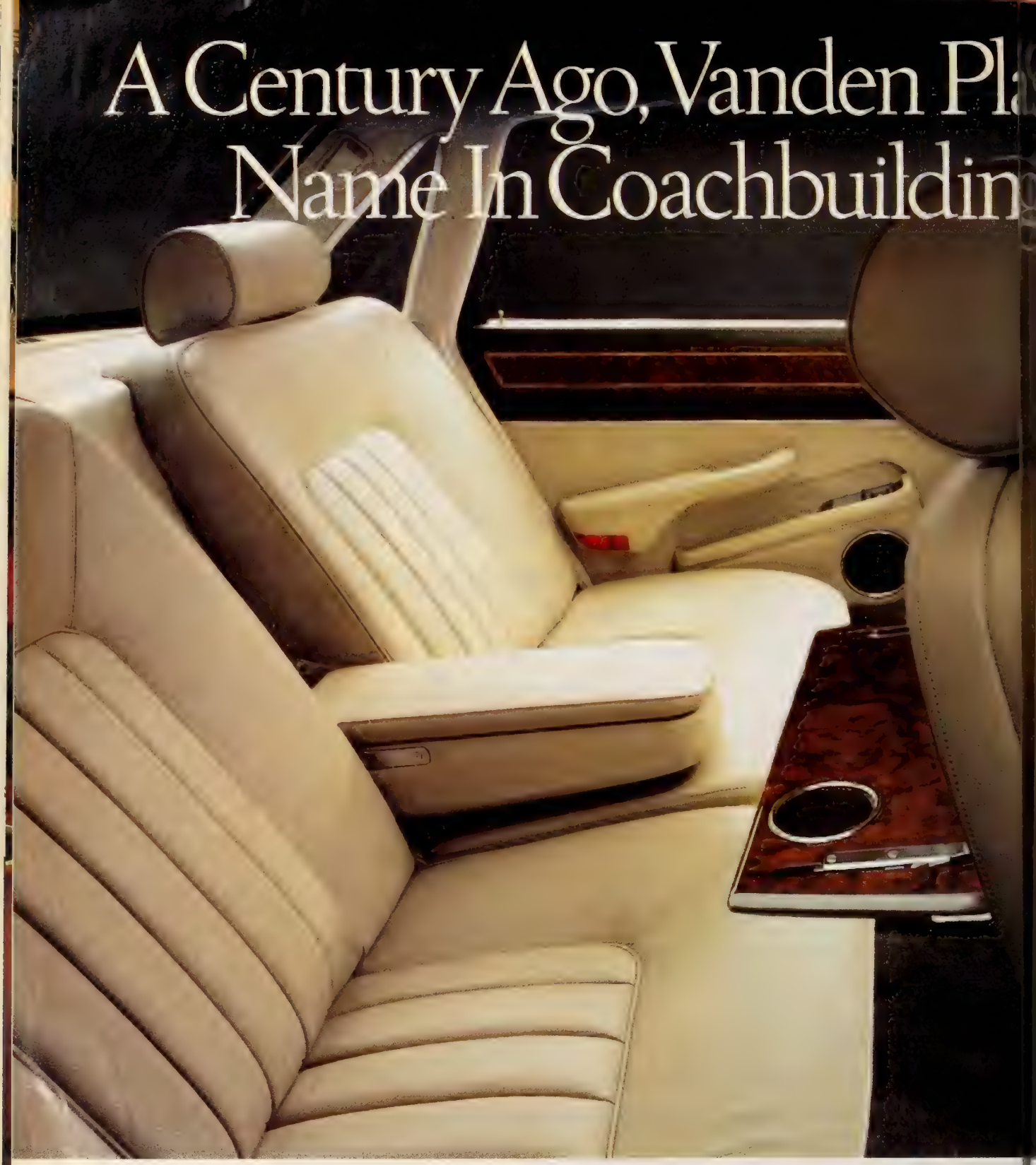

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A C H I N E

J A G U A R

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Side Lines

The revenge of the nerds

Culver

Pay or die, you LBO artists.

The market is taking fierce revenge against Wall Street's leverage artists on behalf of all those hapless folk who bought their original issue junk bonds. The avengers are called bondmailers. They use threats and the courts to force overleveraged companies to give their junkholders a better break. Leverage artists despise the bondmailers. Look at what they did to poor Henry Kravis and his LBO partners. Facing the certainty of lawsuits by bondmailers, Kravis—who took over RJR on a shoestring of equity capital—has had to cough up billions in additional equity and retire some junk at par.

In our cover story, Matthew Schifrin visits with some of the leading bondmailers and describes how they are improving the odds in favor of junkholders at a time when many leveraged deals are falling apart. While most of the media are still hung up on the collapse of the junk market, FORBES is covering the next phase of the saga. "Pay up . . . or else" starts on page 74.

Ban the hormone, cut down a rain forest

In his regular column on science and technology *(page 108)*, Peter Huber lays out this curious pair of facts: (1) Some environmentalists are seeking to ban a hormone that makes cows more efficient at producing milk. (2) Millions of acres of rain forest are cleared every year to make room for more cows. He asks: Wouldn't it make environmental sense to create more efficient cows so the need for extra pastureland would be diminished? But environmental extremists hate logical questions as much as they hate technology.

Reshuffling the Soviet deck

Some people thought we sounded pretty farfetched when our cover story Feb. 19 predicted Russia would quit the present Soviet Union, which would then re-form as a looser federation. That has partly come to pass. Boris Yeltsin proclaimed the sovereignty of Russia's laws over the Union's; the Ukraine and Uzbekistan have made similar moves. Our article was written by Vladimir Kvint, 41, a Siberian economist who is currently lecturing at Fordham University in New York and doing consulting work. What does Kvint see now? "The most influential figure is not Gorbachev but Yeltsin," he says, and adds, "American companies must now consider the different policies of the new governments of each of the republics." He says Siberia and the Soviet Far East are currently politically stable and thus the safest and most fertile fields for foreign investment.

James W. Michaels
Editor

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Survivor on 34th Street

Richard Falco/Stpa

Tight ship in a tough market

Rumors began floating earlier this year that R.H. Macy, with $4 billion in long-term debt, might be insolvent. The rumors are premature.

As FORBES reported back in May 1989, the retailer is a well-managed leveraged buyout that can weather most disasters. Macy's annual cash flow as a percentage of long-term debt is a healthy 18%-plus; Campeau Corp.'s, by contrast, is just under 8%.

That doesn't mean Macy is immune to the current retailing downturn. Last year overconfident Macy buyers ordered too much merchandise just as the Campeau retailing empire ran into its much-publicized cash flow problems. When Campeau's stores—including Bloomingdale's, Abraham & Straus and Jordan Marsh—ran huge sales to raise cash, Macy had to match the promotions. Result: a disastrous 1989 Christmas season. Earnings fell almost 50%.

The ground shook again in April, when Ames Department Stores filed for bankruptcy protection on the heels of Campeau's Chapter 11 filing. Worried factoring companies began tightening up on credit to Macy vendors. Macy executives, in an unusual move, quickly met with the factors and showed them detailed information on past performance and future plans. The factors apparently walked away convinced.

Despite problems at Christmas, Macy ended its fiscal year last month with almost $150 million more cash than it needed to meet its $600 million in annual cash interest payments. With tighter controls, Macy will enter the 1990 Christmas season with $350 million less inventory. That should translate into fewer markdowns and higher margins. If not a miracle on 34th Street, at least Macy is soundly managing its cash flow.—**Subrata N. Chakravarty**

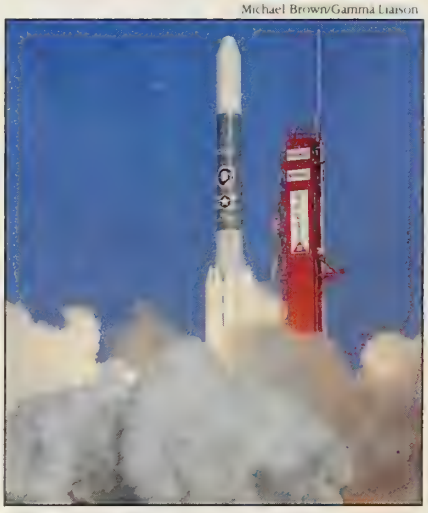
Adam Smith in orbit

The free market is about to meet the final frontier. Under a ruling expected to come from the Bush White House soon, foreign satellite-launching outfits will be allowed to send U.S.-made satellites into space. That's bad news for General Dynamics, Martin Marietta and McDonnell Douglas. These three companies have invested a total of more than $1 billion in rocket-launching equipment and technology. But as FORBES pointed out in May, their launch fees are as much as double those charged by their heavily subsidized Soviet and Chinese rivals.

Companies that manufacture and buy the satellites, however, are delighted because costs will almost certainly decrease. Says one satellite maker, C.J. Waylan, president of GTE's Spacenet unit: "Welcome to global competition."

Does the new ruling mean that the Chinese and the Soviets will derive some military advantage by seeing U.S. satellites close up? Not necessarily. The White House decision will allow United Technologies to help set up a commercial launching base in Australia, and that base is likely to use inexpensive Soviet rockets. Says one U.S. intelligence source, "They'll get a closer look at our satellites, but we'll get a closer look at their rockets, which are quite advanced."

Michael Brown/Gamma Liaison



A defeat for General Dynamics

A bad taste

It looks like Sant Chatwal, founder of the New York-based Indian food chain Bombay Palace Restaurants, was cooking Bombay's books along with his tandoori chicken. Chatwal was the subject first of a glowing FORBES article and later of a not-so-glowing one. In May the Securities & Exchange Commission charged Chatwal with misappropriating funds from the Beefsteak Charlie's restaurant chain, which Bombay Palace had acquired for $6.5 million back in September 1987. Chatwal was also charged with doctoring the books to conceal the violation from his auditors.

Mark Seliger

Were Sant Chatwal's books too spicy?

Chatwal, 44, immediately settled with the SEC, neither admitting nor denying guilt but accepting a permanent injunction barring him from future violations of securities laws. "These things are behind us and we are moving forward," he says.

Bombay Palace's stock? Straight down. It was over $8 a share when the first FORBES article appeared and had dropped to below $3 a share when the second was published. Today the shares trade in the pink sheets at 5 cents each.

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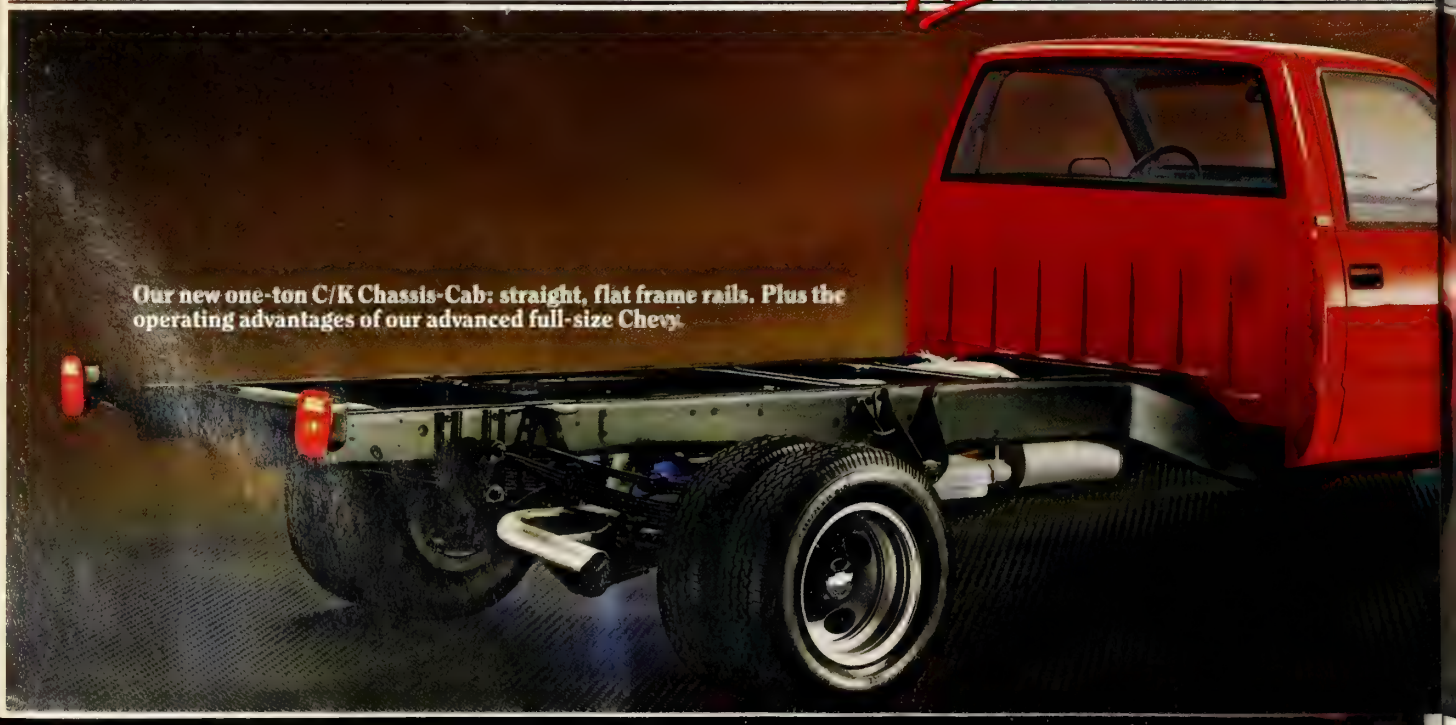

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Forbes Informer

Edited by Eric Schmuckler

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Peter Cohen: the real deal

Those eye-opening newspaper reports pegging the value of Peter Cohen's severance agreement with Shearson Lehman Hutton at $10 million or more were grossly exaggerated, according to Shearson's just released proxy statement. The proxy shows a clearly defined severance payment of $2.5 million. But credited against this is a $2.4 million loan Cohen had taken to buy company stock. And since he must pay income taxes on the original $2.5 million, it looks like Cohen had to write Shearson a check for several hundred thousand dollars on that part of the "package."

The deal did let Cohen walk away with some 340,650 shares of Shearson, worth about $5 million at current prices. But Cohen paid a total of $8.1 million for 290,650 of those shares (the other 50,000 shares were freebies). So his stock investment is now $3 million underwater.

And aside from that, all the severance deal contained was an admittedly generous resettlement payment: a maximum $420,000 to rent and furnish new office space for up to 14 months. Cohen did, of course, leave with some other odds and ends. He sold his interests in the two Shearson private investment partnerships he was involved in for their current but undisclosed value. And he still holds options on $7.3 million worth of shares in Shearson's parent, American Express. But the options and private partnership interests were not part of that much-remarked-upon severance package. Which turns out to be not so eye-opening after all.

Boeing, Boeing, gone

Boeing is finally getting rid of its moneylosing investment in De Havilland of Canada, the commuter-plane maker based in Downsview, Ont. Boeing has quietly signed off on the $200 million sale to ATR, the Europe-an commuter aircraft partnership owned by Aérospatiale of France and Aeritalia of Italy.

Why did the Europeans pay so much for an operation that has cost Boeing an estimated $150 million a year in operating losses? Boeing tacitly threatened to sell the Canadian operation either to the Japanese (apparently Mitsubishi Heavy Industries) or to South Korea's Samsung, already a subcontractor to De Havilland. But the last thing the Europeans need is another well-heeled competitor in the overcrowded commuter-airliner market, where most manufacturers survive only with subsidies from their governments.

Boeing got into this business thinking that its engineering prowess coupled with De Havilland's good aircraft designs would produce moneymakers. Despite a total investment of around $400 million, however, that never happened.—**Howard Banks**

De Havilland's Dash 8 commuter plane
Not made in Japan or Korea . . . yet.

For whom the roads toll

U.S. Secretary of Transportation Samuel Skinner, on a recent visit to Houston, called its new 50-mile toll road system "a model for the rest of the nation." If so, look out. The two-year-old, two-road system, operated by the Harris County Tollroad Authority, is already facing an annual deficit of $20 million for the next decade. Since Harris County guaranteed the debt to secure a lower interest rate, that tab will be picked up through the county property tax.

Voters approved $900 million of bonds in 1983 to build the highways only after local politicians vowed that the roads would be totally self-supporting from user fees. But ridership projections made during the state's boom years were far too high by the time the roads opened.

Secretary Skinner's enthusiasm was apparently stoked by the absence of any federal funds in the construction process. But these roads will take their toll on Houston taxpayers, one way or another.—**William P. Barrett**

The Big Board's tech wars

Several months ago Congress' Office of Technology Assessment had the exchanges steaming. The Capitol Hill watchdog released a draft version of its findings, an anguishingly detailed description of the antiquated, inefficient and costly state of the American stock, futures and options markets. It warned that continued resistance to technological change—mainly the broader use of computerized trading—and the demands of new products such as index arbitrage and basket trading could leave the U.S. way behind more efficient global traders.

Officials at the New York Stock Exchange screamed that the OTA report was riddled with errors and was, in general, a pretty lousy job. But having just seen the still-to-be-released re-draft, we doubt the folks at the Big Board will be any happier with the new version.

Once again, the report describes the decline of the primary U.S. securities exchanges, a result of large and small investors' "growing dissatisfaction with the quality and cost of exchange trading." The report also warns that the archaic specialist system is not equal to the rigors of modern-day trading.

The original OTA draft bluntly called for a consolidation of the Securities & Exchange Commission with the Commodities Futures Trading Commission into one superagency, since program trading and the like have inextricably linked the futures and equities markets. Although it is somewhat more politic, the new OTA draft again appears to suggest a combined agency. That isn't likely to please the futures exchanges, either.—**Richard L. Stern**

Thanks, but no thanks

Aside from entrenching inept management at lazy local companies, the antitakeover law enacted by Pennsylvania this spring has had another noxious side effect: a one-time hit that's knocked 2% to 3% off the stock market value of Pennsylvania-based companies. The bill forced Kenneth Mertz, chief investment officer at Pennsylvania's State Employes' Retirement System, to declare he would have to consider dumping the Pennsylvania-based companies from his state pension portfolio.

Such clearheaded fiduciary responsibility did not sit well with the state legislature. Just before the summer recess, several local lawmakers introduced a resolution demanding a "thorough review" of the pension funds' investment policies. No action is expected before the legislature reconvenes in September, and lead cosponsor Representative Fred Taylor was not available for comment.

It might interest Representative Taylor to know that several of Pennsylvania's major corporations have already rebuffed the legislature's attempt to protect them from takeovers. The state law has a provision that allows any company to exclude itself from all or part of the law's provisions. More than a dozen corporate citizens, including Westinghouse, PNC, Landmark Savings and Rorer, have done so.

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Readers Say

Et tu, FDR?

SIR: Your Fact and Comment *(June 25)* on how to simplify the tax code reminded me of the difficulty President Franklin Roosevelt had in preparing his tax returns. In a letter dated 1943 to his banker, he wrote: " . . . in view of the extraordinary difficulties raised by the recent 'pay-as-you-go' tax law, I think I will ask you to do what you did for my mother in the way of making out my tax returns. I have always done this personally, with few complications, ever since the income tax was invented, but I do not believe that I have the time to go into the new complexities with any assurance of correctness."
—James F. Ruddy
Vice President
The Manuscript Society
Rancho Mirage, Calif.

Save the unions

SIR: Your article "Level playing field?" *(June 25)* glossed over the truly significant features of credit unions—membership. Most credit unions are profitable, but the profits flow back to the members, not to equity stockholders, as in a bank. Banks have looked with disdain, perhaps even contempt, at individual customers.
—Peter L. Pointer
Chairman
Wright-Patt Credit Union
Fairborn, Ohio

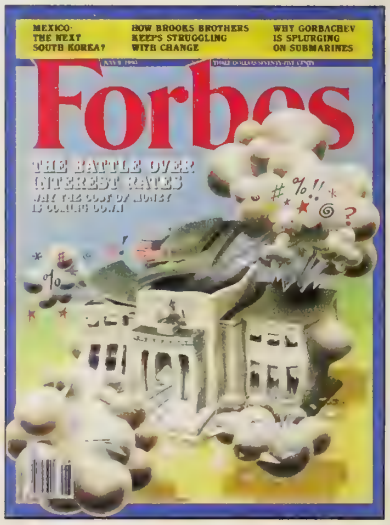
SIR: Are credit unions a threat to banks when total assets of credit unions are less than 5% of banks'?
—William A. Goldsmith
President
Rose Securities Corp.
Carlsbad, Calif.

SIR: Do the banks want a level playing field or do they instead wish the field to themselves?
—Richard G. Fowler
Carpentersville, Ill.

Blackmail in the U.S.S.R.

SIR: Re your various Fact and Comments on the Soviet Union. Gorbachev is a heck of a salesman, but when he said of foreign investment, "Those who stand in the sidelines . . . will remain observers for years. We will make sure that that is so," he revealed a serious misunderstanding of the market economy. Gorbachev proposes to coerce investment today by withholding access tomorrow. He's missed the point. No access, no market economy.
—Robert Hale
Bellevue, Wash.

Fear and greed



SIR: Re "The gospel according to Knut Wicksell" *(July 9)*. Using financial markets as a rational foundation for setting fiscal policy is an oxymoron. Our markets, at least in the short term, are dominated not by the balance of supply and demand but by the balance of fear and greed. This creates excesses that are anything but rational.
—Paul Van Camp
Cardiff, Calif.

California stealing

SIR: Re "The pension snatchers" *(June 25)*. What FORBES didn't say is that California cheats retirees who move away by taxing pension income based upon their total income. It's called taxation without representation.
—R.D. Bach
Kailua-Kona, Hawaii

Don't quote him

SIR: I wish FORBES, as well as the rest of the financial community, would stop interviewing Charles Allmon, who runs the Growth Stock Outlook Trust ("Identity crisis," *June 25*). His

reputation is tarnished by his dismal performance and the high expense ratio of his closed-end mutual fund.
—Donald Westphal
San Francisco, Calif.

Blowin' in the wind

SIR: Your article "Let the ill winds blow" *(June 11)* was factual, except that Crawford & Co. does not go out with the goal in mind of discounting an insured's claim.
—F.L. Minix
Chairman
Crawford & Co.
Atlanta, Ga.

SIR: Ever since our workers compensation insurer turned our account over to Crawford & Co. we have been in a constant battle with them to approve and pay even the smallest claims. It seems Crawford has achieved cutting costs by not paying legitimate claims until threatened with collection proceedings.
—Barbara MacDonald
F. Diehl & Son, Inc.
Wellesley, Mass.

Smoke screen

SIR: In your story on small investors and small stocks ("In the shadows," *June 25*) you set a minimum $5 share price as a parameter in your computerized screening process. The most important point to consider is market value, not share price.
—Gordon T. Anderson
Senior Editor
Individual Investor
New York, N.Y.

Bullshort

SIR: Re your Informer item on AT&E's stock rise *(July 9)*. For a stock to be shorted 50% of the float is very bullish. After all, those 2 million shares still have to be bought back.
—Bruce Rosen
Smithtown, N.Y.

No fair

SIR: Re "Do-it-yourself IRAS" *(June 25)*. The government discriminates, since pension and profit sharing plans can use the Treasury direct program but IRAS have to pay commissions.
—Elliott Adler
Boca Raton, Fla.

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"With all thy getting get understanding"

Fact and Comment

By Malcolm S. Forbes Jr., Editor-in-Chief

GUESS WHO WANTS TO RUN FOR PRESIDENT?

Senator Urges Military Resources Be Turned to Environmental Battle

By PHILIP SHABECOFF

WASHINGTON — Calling environmental destruction "a growing national security threat," Senator Sam Nunn, the chairman of the Senate Armed Services Committee, today proposed shifting substantial Defense Department and intelligence resources to address ecological problems.

of a Strategic Environmental Research Program.

An influential Democratic leader who has played no significant role on environmental issues, Mr. Nunn made it plain that he had two goals: In an age of diminishing tensions with the Soviet Union, he wants to retain the extensive

New York Times

BUT GUESS WHO WILL BE THE DEMOCRATIC NOMINEE?

Mario Cuomo.

BETTER LATE THAN NEVER

The Federal Reserve's belated move to let interest rates come down to offset tightening credit conditions won't save the economy from a poor performance in the second half, but it should help fuel a rebound next year. Republicans will pay the price for this sluggishness in November.

Stocks and bonds should end the year in splendid fashion in anticipation of better times, although there will be air pockets as people realize how poor the economy is.

As next year's recovery picks up steam, the Fed will be tempted to tighten too soon because of unfounded fears that prosperity causes inflation.

If the Administration wants to guarantee its reelection in 1992, it will push hard for a capital gains tax reduction. Such a cut will provide enough momentum to overcome the Fed's antiprosperity proclivities.

FALSE FACT

One of the most durable misconceptions today is that foreigners are financing our budget deficit, that without their infusions we'd be broke. We're told that we must raise taxes so we won't become even more dependent on the Japanese and other overseas money managers.

But international investors finance little more of our national debt today than in the mid-1970s *(see table)*.

Future historians and psychologists will have fun figuring out why influential Americans were so susceptible to half-truths and falsehoods about the state of our economy. Have we ever had so many hypochondriacs in high places?

Year	National debt ($bil)	U.S. govt securities held by foreign investors ($bil)	% of national debt held by foreign investors
1975	$541.9	$66.0	12.2%
1980	908.5	118.2	13.0
1985	1,816.9	222.9	12.3
1988	2,600.7	345.9	13.3
1989	2,866.2	393.5	13.7
1990	3,113.0*	NA	—

*Estimated. NA: Not available. *Source: Bureau of the Public Debt*

POOH-POOHING PATRONAGE IS POOR PUBLIC POLICY

The Supreme Court has ruled that governments—federal, state and local—can no longer consider political affiliations when hiring or promoting almost all of their employees. The banning of patronage in all but a handful of cases in government is one of the Court's sillier decisions.

Brad Black Star

Dissenter Scalia's political insights are sound

What makes a democracy work is accountability. If elected officials can't bring into government people of like mind, their effectiveness is reduced. Do we really want a permanent, unaccountable bureaucracy particularly on the state and local levels where the decision will hit hardest?

Anyone who thinks bureaucrats faithfully, energetically carry out policies set by elected officials has never read a newspaper. Battles within government are constant.

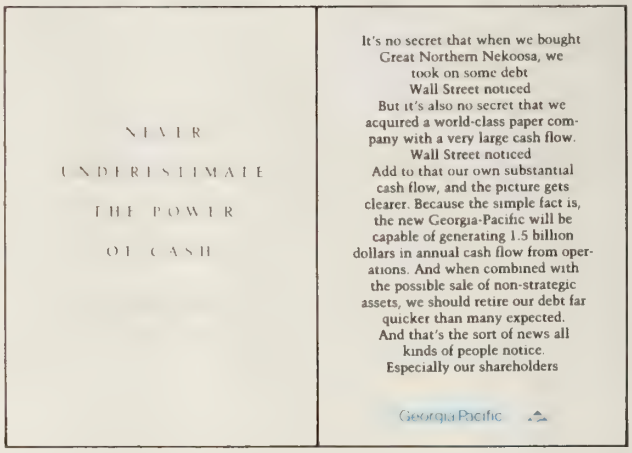
If the electorate wishes to shield all government workers from political pressures it can elect officials and legislators to enact such laws. This is a matter for voters to decide, not judges.

TIMELY REASSURANCE

Here's an ad that hits head-on a major concern of investors today—that a number of companies have taken on too much debt.

Georgia-Pacific has expanded impressively and aggressively under CEO T. Marshall Hahn Jr. When the company recently won its battle to acquire a major paper company, the inevitable question arose: Has GP swallowed too much at a time when the industry is going soft?

Not only should this ad reassure even the most skittish investor that the answer is no, but it also convincingly conveys the message that GP has a strong future.



NEVER UNDERESTIMATE THE POWER OF CASH

It's no secret that when we bought Great Northern Nekoosa, we took on some debt
Wall Street noticed
But it's also no secret that we acquired a world-class paper company with a very large cash flow.
Wall Street noticed
Add to that our own substantial cash flow, and the picture gets clearer. Because the simple fact is, the new Georgia-Pacific will be capable of generating 1.5 billion dollars in annual cash flow from operations. And when combined with the possible sale of non-strategic assets, we should retire our debt far quicker than many expected.
And that's the sort of news all kinds of people notice.
Especially our shareholders

Georgia-Pacific

HERE WE GO AGAIN

Once again we're being treated to articles about the deplorable state of American youth.

The media are full of stories based on a couple of studies purporting that today's youngsters are selfish, laid-back and uninterested in what's happening to the economy, to the world, to the universe. These attitudes supposedly constitute a national crisis.

> *The No-News Generation*
> Survey Finds Young Ignorant and Indifferent
> — *Washington Post*

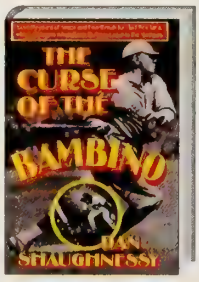
Actually, this handwringing about the young is a civilized form of revenge. Adolescents usually give parents or stepparents a hard time; this is a way the adults hit back—implying the kids may not be up to snuff.

After all, is there anyone alive today who can recall when a new generation didn't arouse the skepticism and unease of older generations?

If indeed today's youth are unusually unknowing about our history or their civic responsibilities, that's an indictment of our schools—and of parents for not doing more to reform these hidebound institutions.

RUTH'S REVENGE

The Curse of the Bambino (E.P. Dutton, $18.95) explains why Boston fans know better than to get too excited over the Red Sox' superb performance so far this season. The team is jinxed.



The Red Sox haven't won the World Series in more than seven decades, punishment for owner Harry Frazee's selling Babe Ruth to the Yankees just after New Year's Day 1920. The deal was like swapping Abraham Lincoln for Millard Fillmore. Before the sale, the Sox perpetually won pennants and World Series. After the sale, nothing ever went right, culminating in the now-legendary 1986 World Series when Boston was one out from becoming world champion and then proceeded to blow the most extraordinary game in baseball history.

The whole story is compelling enough to overcome the book's poor editing. The first half is repetitious, and quotes from some interviews are too long and rambling.

If you know a youngster in New England, send him a copy so he can be prepared for the inevitable disappointment.

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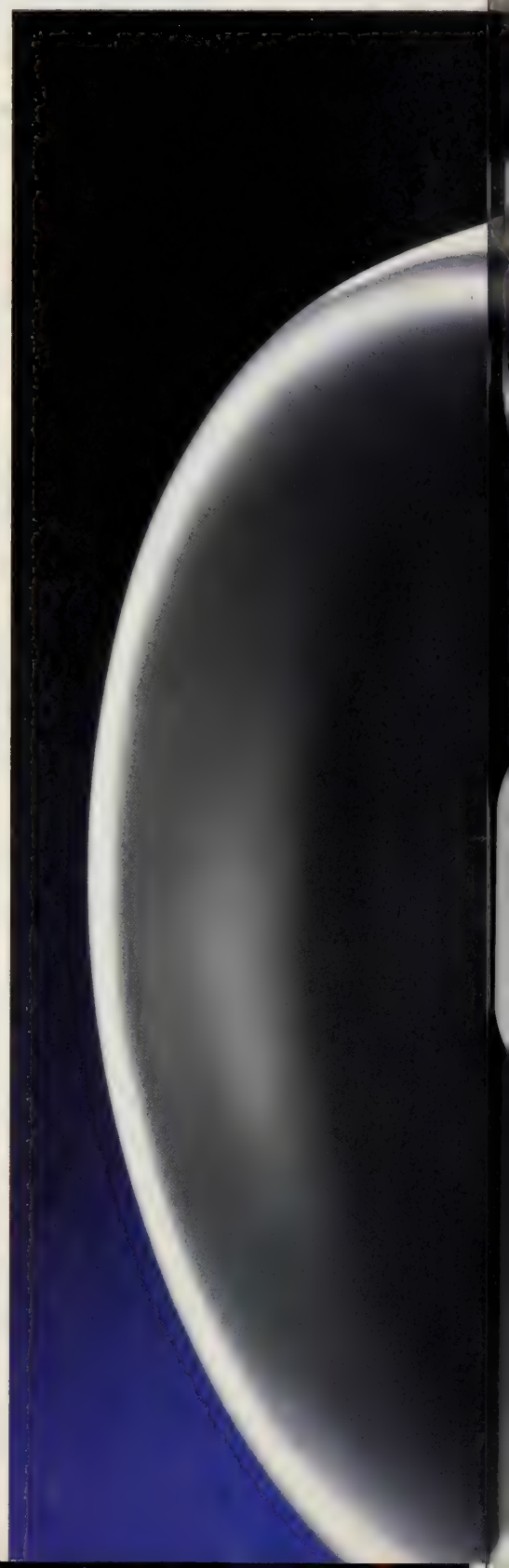

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thrust.

Other Comments

Pity the Passenger

Comedian Jack Carter [has] a unique windshield he had made especially for his car. "Jack cares more for his Mercedes than he does for his wife and children," says his wife, Roxanne. "And I hate wearing glasses," adds Carter. "But I need them. So I had a prescription windshield installed in my car."

—*The Arizona Daily Star*

Never Say Die

[Prime Minister Thatcher] will not be there forever. She is mortal. She has much heart, but all hearts stop. However, she does resemble that gruff Englishman who, when he suffered palpitations, would thump his chest and bellow "Go *on*, go *on*!" until his heart obeyed. She intends to go on and on.

—George F. Will, *Newsweek*

Rosy Crystal Balling

Bruce Steinberg, a senior economist at Merrill Lynch & Co., predicts that the U.S. [trade] surplus with Europe could reach $25 billion to $30 billion a year, in a return to the glory days of American trade more than a decade ago. . . .

"There's going to be a massive wave of exports from West Germany to East Germany," says Brian Horrigan, director of long-term forecasting at WEFA Group, a consulting firm in Bala Cynwyd, Pa. "What happens to the markets in Western Europe that West Germany was exporting to? That opens up huge opportunities for the U.S."

—Hilary Stout, *Wall Street Journal*

Age-Old Fancy

HYANNIS, Mass.—In her rambling seaside home here, Rose Fitzgerald Kennedy was sitting on the porch with her daughter Eunice Shriver and her grandson Robert Shriver.

"Grandmother, aren't you excited?" exclaimed Mr. Shriver, who is 36 years old himself. "You're going to be 100."

No, Rose replied. "I wish I was 16."

—Fox Butterfield, *New York Times*

Roundabout Tip

You know most of the names in big insider trading schemes, but what about Robert Chestman? Chestman spent 11 months in Allenwood convicted of a crime he could not have committed because the crime didn't exist. That's right. The Second Circuit Court of Appeals said that we don't have a definition of insider trading that covers what Chestman did. Chestman received information from a man married to the niece of the principal owner of a chain of grocery stores. This was a fourthhand tip.

If you drive past a factory and see a group of pickets, are you guilty of trading on inside information if you sell the stock short? Is there a legal duty to refrain from using information that others don't have? We need a clear definition of just what is meant by inside information.

—Harry S. Gross, financial commentator, Station WCAU, Philadelphia

No Choice

That winter [1945-46] there were great fears of starvation [in Japan]. Newspapers predicted that 10 million people would die of hunger. But in a famous cable General Douglas MacArthur demanded that Washington send 3.5 million tons of food immediately or send bullets and guns to put down the hunger riots that would otherwise be inevitable. When the response was slow, MacArthur cabled again: "Give me bread or give me bullets." The food came quickly. No one starved.

—Sam Kusumoto, president of Minolta Corp., *My Bridge to America*

Everyone loves himself most but wants others to love him more than they love themselves.

—Allan Bloom, *The Closing of the American Mind*

Do It the U.S. Way

"In your country [the U.S.] you struggle so the poor will be rich, and in our country we struggle so the rich will be poor."

—Andrei Brezhnev, grandson of Leonid Brezhnev, quoted in *Vanity Fair*

Wearing Words

Re slogan-bearing clothing: If people don't want to listen to *you*, what makes you think they want to hear from your sweater?

—Fran Lebowitz, *Metropolitan Life*

Pats Promoter

Sully, the head dishwasher [at the Cafe Rouge, was] a 350-pounder who sweated rivers in the heat but didn't let that stop him from continuously stuffing his mouth with the half-eaten steaks and chops and crepes suzette he found on the plates that came back from the dining room. His "racket" was scraping the partly used pats of butter from the butter dishes and packing them into Dixie cups—perhaps as much as ten pounds a night—to resell at a discount to a restaurant that was owned by his wife's uncle.

—*Down and Out in Cambridge*, by Douglas Fairbairn

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NORTHWEST AIRLINES

Commentary
on Events at Home and Abroad

By Caspar W. Weinberger, Publisher

THE FUTURE OF NATO—AND OF GORBACHEV

In the recent past when the United States supported foreign leaders whose policies and personalities differed from our accepted standards and who were unpopular in their countries, the conventional wisdom was to attack our government as an insensitive supporter of dictators.

But, with Gorbachev, a double standard seems to apply.

NATO's strategy, proven by 41 years of achievement, now has to be changed so that "Gorbachev will not be threatened." In the same weeks that saw Gorbachev attacked in most unbridled terms by many members just prior to his reelection by the party congress, *our* President was attacked repeatedly by columnists and political opponents because he did not leap ahead of Germany's Chancellor Kohl and France's opportunistic President Mitterrand to offer the U.S.S.R. more billions—billions that some of the Soviets' leading economists say they do not need and do not want Gorbachev to have.

Gorbachev at the party congress: a rival in his future?

Even a suggestion that any gift should be linked to something is quickly rejected. "Crude," "inappropriate," "humiliating" are among epithets used to discredit those bold enough to suggest that the West should realize something to help preserve victory in the Cold War.

If the Cold War *is* over and won, it is puzzling indeed to understand why a few conditions should not be imposed by the winners, conditions that have two purposes: one, to insure that the West can continue to deter possible Soviet or other aggression; two, to help the Soviets truly reform so they can again live with the civilized nations of the world.

The victors in the Cold War are certainly entitled, indeed obligated, to require that the U.S.S.R., as a condition of receiving aid, insure that the West will not have to continue keeping the peace by means of strong and expensive armed forces. And it seems appropriate to require the Soviets to enact real reforms, economic and political.

After all, it was considered perfectly seemly for the West to take quite drastic measures in both Germany and Japan after World War II to make sure the aggressive and deadly policies of the prewar governments of both countries were not repeated. And those measures succeeded.

Prime Minister Kaifu of Japan is correct to say he will not give money to help the Soviet economy until the Soviets return the four northern Japanese islands that they seized after entering the war against Japan a day or so before the war ended. Those islands are being used as bases pointed at Japan from very short range. If our fear of doing anything that may "humiliate" Gorbachev requires us to overlook the force used by him to suppress dissent in Georgia, Lithuania and elsewhere, and it requires us to give him sums of unrestricted money, we may well find that the Cold War has not ended in a Western victory.

The actual changes proposed in London for NATO are not as drastic as the headlines proclaim. Nuclear weapons have always been thought of only as a last resort by all NATO military planners. And we never had any intention of being the "first to use force"—our whole NATO policy has always been to be strong enough so that we would never have to use force, first or last.

NATO's London Declaration does have some welcome new language that responds to the new situation NATO's success has largely brought about. But what is important is that NATO maintain its ability to respond successfully to any attack. We should require that the Soviets *make* (and not just *agree* to make) supervised asymmetrical reductions in their immensely strong military. That is more important than buying Gorbachev's agreement to Germany's staying in NATO (which was inevitable anyway).

Gorbachev's days in power are unlikely to be extended by Western attempts to purchase a longer tenure for him. If we wish to support a Soviet leader whose policies appeal to us, we should look more closely at Boris Yeltsin, whose popularity is clearly greater than Gorbachev's. More importantly, Yeltsin genuinely wants to move toward democracy, pluralism, individual rights and a market economy. In contrast, Gorbachev talks vaguely of having a "controlled market economy" and of making "maximal use of the tremendous potential and advantages of the Socialist system" (two of the greatest oxymorons we have yet seen), and he continues to send $5 billion a year to Castro's Cuba.

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What's Ahead for Business

Edited by Howard Banks

POLITICKING THE ECONOMY

Is there a credit crunch in the house?

FEARING THAT A LACKLUSTER ECONOMY MIGHT BE PUSHED into recession by anticipated tax increases and cuts in the federal budget deficit, the White House has been putting urgent pressure on Federal Reserve Chairman Alan Greenspan to cut rates. Offsetting the hoped-for $50 billion cut from a budget compromise would require the Fed to cut interest rates by half a percentage point—and soon, because of the lag between cut and reaction. The result so far of the White House pressure: a tiny cut in the federal funds rate, the banks' overnight cost of money, to 8%, down from 8.25%.

Mr. Greenspan justified the easing by citing a credit crunch. But, outside of commercial real estate (where there is a glut of unrented space), little or no evidence of a serious credit crunch exists.

The latest June survey of the half-million-member National Federation of Independent Businesses, predominantly small companies, shows that 11% of companies were finding it harder to get a loan than three months earlier. That's the same as in May and up from 7% in January (this measure has ranged from 7% to 12% since 1983). "It's a sensitive measure, which peaked at around 30% in the 1981-82 recession, when there really was a credit crunch," points out NFIB chief economist William Dunkelberg. The National Association of Manufacturers found much the same thing, reports President Jerry Jasinowski, who says, "small manufacturers' main problem is a cash flow problem because of slow demand."

U.S. trade surplus by 1995, on present trends

LOWER RATES, AT A TIME WHEN INTEREST RATES in Japan and Europe are heading up, will likely put downward pressure on the dollar, which will give rising U.S. exports a further shot in the arm.

In real, inflation-adjusted, terms—and excluding oil—U.S. merchandise trade is rapidly heading for balance, says Eaton Corp. economist Adrian Dillon. The U.S.' trade surplus with Western Europe will probably grow (hardly surprising, given that West German wage rates are now 37% higher than in the U.S.). Exports of electrical and nonelectrical capital goods and aircraft are booming, as are high-tech exports like computers. The U.S. also has a $30 billion (and rising) surplus in services trade.

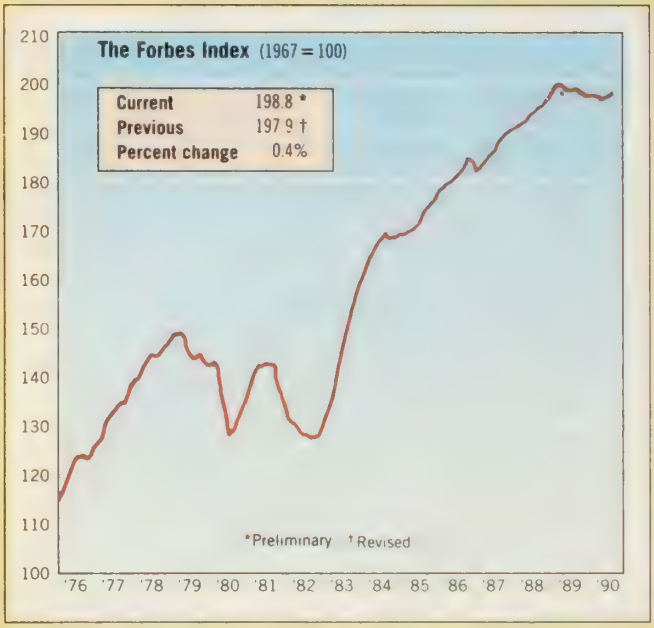
It now seems likely that, despite the chronic deficit with Japan, the U.S. will be in trade surplus, including oil, by 1995.

Will the Federal Reserve ease only to squeeze?

LOWER INTEREST RATES, HOWEVER THEY COME ABOUT, will give the economy—and Wall Street—a welcome boost.

But will the Fed let the rate cuts stick? Or will it reverse itself and go back to a tight money stance as has happened so often in the past 18 months? The most recent occurrence, the statistics now suggest, was another ease-and-squeeze over the most recent three or four months. Those who believe Fed easing is in the cards take heart from the fact that the White House, for its own political reasons, is now firmly on the Fed's case, and will likely fight any quick return to higher rates.

The Forbes Index



Buoyed by strong department store sales, retail volume recovered from a three-month slump to post a 0.5% gain in June. Unemployment fell in June for the third straight month, to 5.2% of the work force, but there may be trouble: The number of new unemployment claims rose 1.8%. After rising less than 0.1% in April, consumer installment credit increased 0.5% in May. The Forbes Index finished May with a 0.2% gain, the best monthly increase since January 1989. The preliminary June figure is up 0.4%, but only two components have been reported.

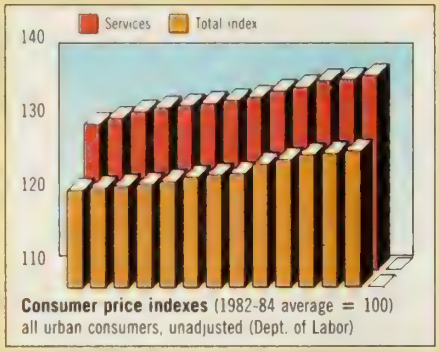
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	10.0%
Auto sales year to date vs. 1989[1]	Ward's Automotive	–3.7%
Index of leading indicators May vs. April	Dept of Commerce	0.8%
Trade balance last 12 months ending April 1990	Dept of Commerce	–$106 bil
Producer price index June vs. 1989[2]	Dept of Labor	3.1%
GNP 1st quarter vs. 4th—annualized growth	Dept of Commerce	1.9%
NBER Experimental Recession Index[3]	Natl Bureau of Economic Research	7.0%

[1]U.S.-based manufacturers, excludes imports, as of 7/10/90. [2]Finished goods. [3]May 1990.

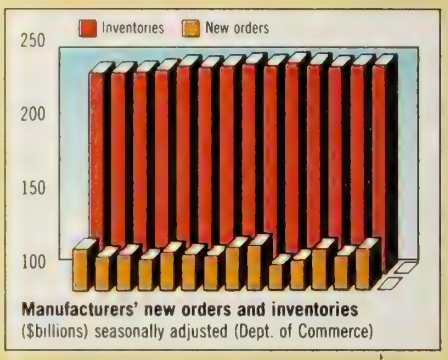
Index Components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

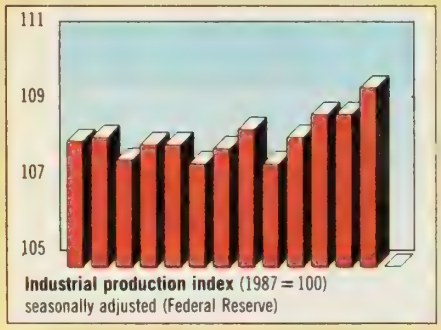
To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



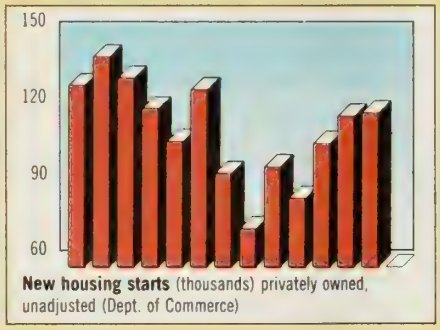
Consumer price indexes (1982-84 average = 100) all urban consumers, unadjusted (Dept. of Labor)



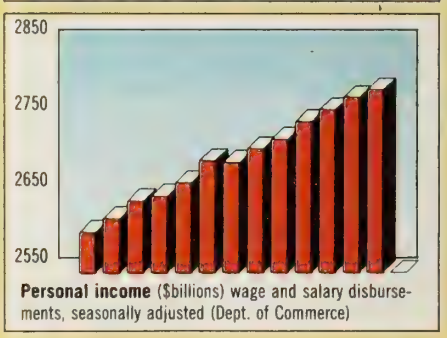
Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)



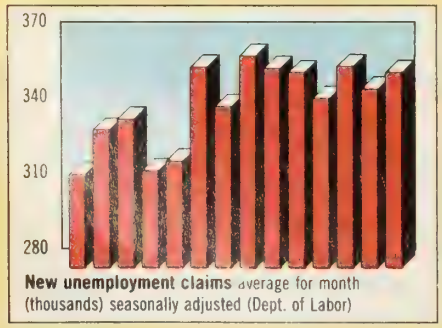
Industrial production index (1987 = 100) seasonally adjusted (Federal Reserve)



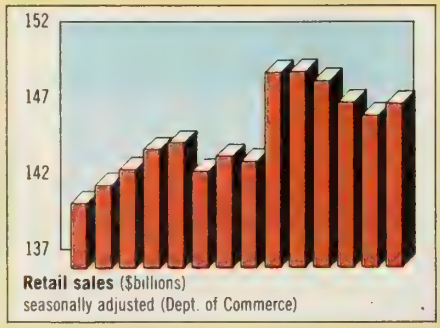
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



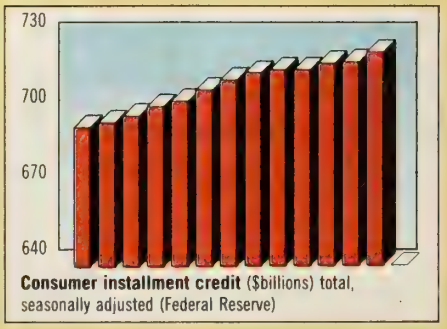
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



New unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)



Retail sales ($billions) seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

M J J A S O N D J F M A M A
1989 1990

This announcement is neither an offer to sell nor a solicitation of an offer to buy these securities. The offer is made only by the Prospectus.

June 26, 1990

29,876,543 Shares

American Express Company

Common Shares

Price $30⅜ Per Share

Copies of the Prospectus may be obtained in any State in which this announcement is circulated only from such of the undersigned as may legally offer these securities in such State.

This portion of the underwriting is being offered in the United States by the undersigned.

14,300,000 Shares

Lehman Brothers
Bear, Stearns & Co. Inc.
Goldman, Sachs & Co.
Kidder, Peabody & Co. Incorporated
Lazard Frères & Co.
Morgan Stanley & Co. Incorporated
Salomon Brothers Inc

Sanford C. Bernstein & Co., Inc. | Alex. Brown & Sons Incorporated | Dillon, Read & Co. Inc. | Donaldson, Lufkin & Jenrette Securities Corporation
Hambrecht & Quist Incorporated | Merrill Lynch Capital Markets | Montgomery Securities | The Nomura Securities Co., Ltd.
PaineWebber Incorporated | Prudential-Bache Capital Funding | Robertson, Stephens & Company
Smith Barney, Harris Upham & Co. Incorporated | Wertheim Schroder & Co. Incorporated | Dean Witter Reynolds Inc.
Advest, Inc. | Arnhold and S. Bleichroeder, Inc. | William Blair & Company | Blunt Ellis & Loewi Incorporated | J. C. Bradford & Co.
Cowen & Company | Dain Bosworth Incorporated | First Manhattan Co. | Gruntal & Co., Incorporated | Interstate/Johnson Lane Corporation
Janney Montgomery Scott Inc. | Ladenburg, Thalmann & Co. Inc. | Legg Mason Wood Walker Incorporated | McDonald & Company Securities, Inc.
Morgan Keegan & Company, Inc. | Needham & Company, Inc. | Neuberger & Berman | Piper, Jaffray & Hopwood Incorporated
Prescott, Ball & Turben, Inc. | The Robinson-Humphrey Company, Inc. | Stephens Inc.
Stifel, Nicolaus & Company Incorporated | Tucker Anthony Incorporated | Wheat First Butcher & Singer Capital Markets

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4,000,000 Shares

Lehman Brothers International
Bear, Stearns International Limited
Goldman Sachs International Limited
Kidder, Peabody International Limited
Lazard Brothers & Co., Limited
Morgan Stanley International
Salomon Brothers International Limited

Amsterdam-Rotterdam Bank N.V. | BNP Capital Markets Limited | Banco Hispano Americano S.A. | Banque Indosuez
Barclays de Zoete Wedd Limited | COMMERZBANK Aktiengesellschaft | County NatWest Limited | Crédit Lyonnais Securities | Deutsche Bank Aktiengesellschaft
Dresdner Bank Aktiengesellschaft | Generale Bank | Istituto Bancario San Paolo di Torino | Kleinwort Benson Limited
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Lehman Brothers International
Daiwa Securities (H.K.) Ltd
The Nikko Securities Co. (Asia) Limited
Nomura International
Yamaichi International (H.K.) Limited

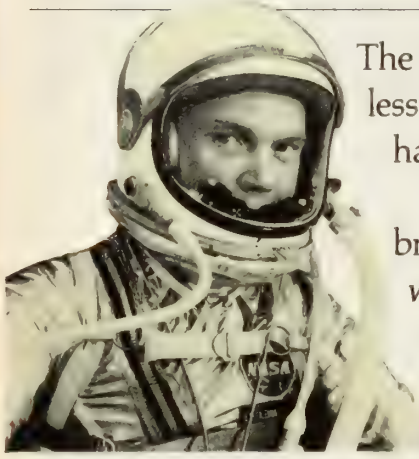
Daewoo Securities Co., Ltd. | The Development Bank of Singapore Ltd
Jardine Fleming International Inc. | Nippon Kangyo Kakumaru (Europe) Limited

Subject to certain conditions, the Company will also sell the below referenced shares to Nippon Life Insurance Company at the public offering price.

9,876,543 Shares

Lehman Brothers

THEY SAY IT'S GOING TO FLY. OF COURSE, THEY AREN'T GOING.



On February 20, 1962, the Atlas of Friendship 7 boosted the first American, John Glenn, into Earth orbit. His historic flight was the 117th for an Atlas.

The machine had stainless steel skin. The men had steel nerves.

The men were the brave Americans who waited, strapped into a cramped capsule atop 125 tons of explosive fuel, to be blasted into orbit.

The machine was originally America's first intercontinental ballistic missile, developed by General Dynamics in the early 1950s, and for nearly 10 years the free world's major deterrent weapon.

The men were the Mercury astronauts.

The machine was our Atlas rocket.

Their histories merged in the early 1960s, when General Dynamics began reconfiguring Atlas to launch payloads into space for the Air Force and NASA.

Since then, the stainless steel sheen of the Atlas skin is the only thing that has remained unchanged, as literally thousands of technological improvements have been incorporated.

This fiendish-looking device was part of the apparatus we built to simulate effects of weightlessness. In addition to training equipment, General Dynamics also built tracking stations around the globe.

Atlas has boosted virtually every U.S. weath satellite. In December 1958, it boosted th world's first communications satellite, Proje Score, which circled the globe broadcasting President Eisenhower's Christmas messag Atlas went on to launch 36 more commun cations satellites, and dozens of scientifi probes, including Pioneer, Mariner, and Surveyor, the first American spacecraft soft-land on the moon.

With a record of 496 launches, our Atla is one of America's most successful and re able launch systems.

the stainless steel skin of a Centaur upper stage, one of our craftsmen measures ion and contraction stress. Unique technology makes the Atlas/Centaur the most efficient vehicle in use today.

Our 30-plus years of experience and the dedication to excellence of the Atlas team are especially important now.

In one of the largest commercial space ventures in history, General Dynamics has committed to the production of 62 new Atlas vehicles for government and business missions.

For over three decades, Atlas has made history in space.

And paid dividends here on Earth.

GENERAL DYNAMICS

A Strong Company For A Strong Country

While disheveled billionaire Gordon Getty composed operas, his hired hands used the bankruptcy code to add to his fortune.

How Gordon Getty plays hardball

By James R. Norman

When big Texas drilling contractor DeltaUS Corp. went bust early last year, it seemed like just another hapless oilfield Chapter 11. But this one had a twist. Delta was 75% owned by billionaire Gordon J. Getty, one of the richest men in the country.

Now renamed Delta Drilling Co., the driller has emerged from reorganization, although some administrative claims remain unsettled. Getty now has 100% control of one of the country's biggest and most respected land drilling companies. It emerges debt-free and generating cash again, despite the continued weak oil economy. Left behind in the bankruptcy court in Delta's home of Tyler, Tex. is about $25 million of unpaid debts.

Gordon Getty's net cost for this valuable asset: about $20 million. That's 10 cents on the dollar for what Delta's 50-rig operation was valued at in 1987. In a decent year, the operation can earn over $20 million.

Who, besides Delta's creditors, is stuck with the bill? Taxpayers. The biggest single unpaid debt is a $10 million claim by the government's Pension Benefit Guaranty Corp. Overall, PBGC expects to get only about 20 cents on the dollar. About half of that would come from liquidating various assets Delta tossed into a payout trust for unsecured creditors. Suppliers and other creditors still owed $13 million will have to share in those rig sale proceeds, estimated at about $2 million. Delta's banks, NCNB and Citibank, will get 66% of the $15 million they were owed.

Most painfully hit are the several hundred Delta retirees, some of whose pensions have been cut by as much as 25%, with company-paid health and life insurance costs now shifted heavily to retirees. Many of these employees were among the long-time workers to whom Delta gave big blocks of stock when the company went public in 1981. Before they could sell it, the stock plunged to 13½ a share from an initial 17½. Within a year it had fallen by half, and is now worthless. Yet employees who received stock must still pay taxes on a value of 15½, set by the IRS. Some retirees were counting heavily on their pension income to pay those tax bills. "It's turning out to be a disaster," says Z.L. (Nig) Spraggins, 74. A former rig hand, he got $1.6 million in Delta stock, held until it was worthless. His $1,350 monthly pension remains intact, but he has to pay a bigger share of his life insurance.

Joe McNally/Sygma

Billionaire composer Gordon Getty at home
His investment team played hardball with Delta's creditors.

Just how much of this can be laid at the door of the San Francisco music room where Gordon Getty spends his time composing operas is debatable. Getty, who speaks only through his advisers, has an excellent eye for investment and legal talent to do his bidding for him.

The key to Getty's Delta success was the way his initial investment was structured. In 1987 Delta's then-chairman and 47% stockholder, Keating V. Zeppa, son of the com-

pany's founder, was desperate for capital. After the October 1987 market crash, potential rescuers had fled. Houston investment bankers Simmons & Co. International, however, talked Getty's advisers—led by former Treasury official Marc Leland—into taking a gamble on Delta. Pitched as oilfield bottom-fishing, it also fit well with Getty's $7.5 million stake in what is now Chiles Offshore Corp. That investment has since tripled in value.

In mid-1988, just six months before Delta filed for Chapter 11, Getty invested $9.5 million in Delta through P.A.J.W. Corp. (the first initials of Getty's four children). Of that, $7 million went to buy 75% of Delta's voting stock and $2.5 million was a secured loan to the company. That loan kept Getty below the 80%-of-equity threshold used by the IRS and PBGC to define a control person who might be held liable for tax or pension liabilities. Buoyed by the entry of a deep-pockets investor, suppliers again extended credit to Delta.

But within weeks a modest upturn in drilling activity petered out. By year-end the Getty forces had brought in hardball Dallas bankruptcy lawyer Henry Simon, who had represented the Hunts in the Placid Oil bankruptcy case. With Getty worth around $1 billion, Simon made it clear that if creditors didn't play along, his client would put Delta in Chapter 11 without batting an eyelash.

Charles Thatcher

Retiree Z.L. Spraggins
His health insurance jumped.

Both Zeppa, who was still Delta's chairman, and suppliers say progress was being made and a deal seemed close. But in late January 1989, to Zeppa's and the creditors' shock, Delta filed for Chapter 11 anyway. Tough guys, Gordon Getty and Henry Simon. Zeppa resigned.

In the bankruptcy, creditors tried to claim that P.A.J.W.'s $2.5 million secured loan to Delta was really equity. That would have put Getty over the 80% mark and made him liable for the full $10 million PBGC claim, which would have doubled his losses. But, unwilling to throw good money after bad during years of Getty-financed litigation, creditors dropped the suit in an overall settlement reached early this year. Sighs one demoralized Houston creditor: "At the end of the day, we just took what we could get."

Even the government's PBGC caved in. "If we could have gotten to Mr. Getty's assets, we would have," insists PBGC chief negotiator Diane E. Burkley. "But the [ownership] test is very mechanical."

Now that those pension liabilities have been wiped out by the Chapter 11 process and Delta's pension plan terminated, Getty has personally stepped in to take full ownership of Delta, for a modest $13.5 million in the bankruptcy settlement. Assuming he can use the loss on his original $9.5 million investment to offset profits elsewhere, Getty's net cost is still only $20 million.

"Delta now has some of the finest drilling rigs in the U.S.," declares Leonard W. Pipkin, former president of a drilling company who inspected Delta for creditors. Not to mention Delta's healthy Italian drilling company, which escaped Chapter 11.

Bluffing, loss, triumph—perhaps Gordon Getty will incorporate the themes of bankruptcy into one of his operas. ■

Doug Milner

A dismantled Delta drilling rig for sale in Odessa, Tex.
Unsecured creditors settled for a token amount.

Cummins Engine may have started something big. Its innovative restructuring offers a way for others to invest for the future without attracting the takeover sharks.

A very Japanese solution

By Jerry Flint

HERE IS ANOTHER Japanese phrase to be added to the mythical Dictionary of Japanese Business Terms We Never Knew Until We Woke Up Losing Market Share. The phrase is *antei kabunushi*. It means "stable stockholders."

Most Japanese companies have *antei kabunushi*; few U.S. firms do. Big blocks of stock in most Japanese companies are owned by suppliers, customers, banks—people who have a relationship with the company. Thus shareholder and company have a community of interests that is too often missing with U.S. companies.

The *antei kabunushi* don't buy to trade, they don't buy to take over, they don't buy to greenmail. They buy the stock because they like doing business with the company and want to maintain the status quo.

Having big chunks of stock in the hands of *antei kabunushi* enables a company to take the long view, to invest for the future. That's what Cummins Engine badly wants to do, but its erratic earnings have made it a target for raiders and greenmailers.

Last month Cummins found a Japanese solution. It sold blocks of its stock to a group of customers: Ford Motor Co., Tenneco (which owns JI Case, the tractormaker) and Kubota (the Japanese tractor/construction equipment maker). Among them the customer/shareholders will own 27% of the stock, and Cummins will get $250 million to pay down debt and invest for the future. Specifically, Cummins will keep investing in top-quality diesel engines, which is just what the three manufacturers want. Independent Cummins will also make a trustworthy venture partner.

Headquartered in Columbus, Ind., Cummins is running about $3.5 billion annually in sales, but its profits have roller-coastered in the feast-or-famine market for big-truck diesel engines and the need for technological improvement to remain ahead of foreign competition. Nevertheless, Cummins has held high its reputation for quality and innovation.

The deal involves more than investing. Ford currently gets 70% of its premium heavy-duty diesels for its biggest trucks from Cummins and will throw in its medium-duty truck business. Ford now imports those engines from Brazil. Kubota would like

Louie Psihoyos/Matrix

Henry Schacht, chairman of Cummins Engine
"We built this country on long-term money, not on quarterly returns."

to make engines in Europe with a long-term partner—Cummins. Tenneco's tractor unit may expand its enginemaking with Cummins.

Do these cross-shareholdings create the possibility of conflict of interest? Cummins Chairman Henry Schacht notes that all directors, even those from Ford and Tenneco, must serve the interests of all shareholders, not just their own companies'.

Will *antei kabunushi* spread? Schacht hopes it will: "We built this country on long-term money, not on quarterly returns. The demands of being globally competitive mean the payback is over years, not months.

"The question for our company and those like us is where is this patient money?" Schacht has found it. Who's next? ■

After a great 1988, because of fare wars, the airline industry will barely break even this year. Is re-regulation in the cards?

Rough weather behind and ahead

By Howard Banks

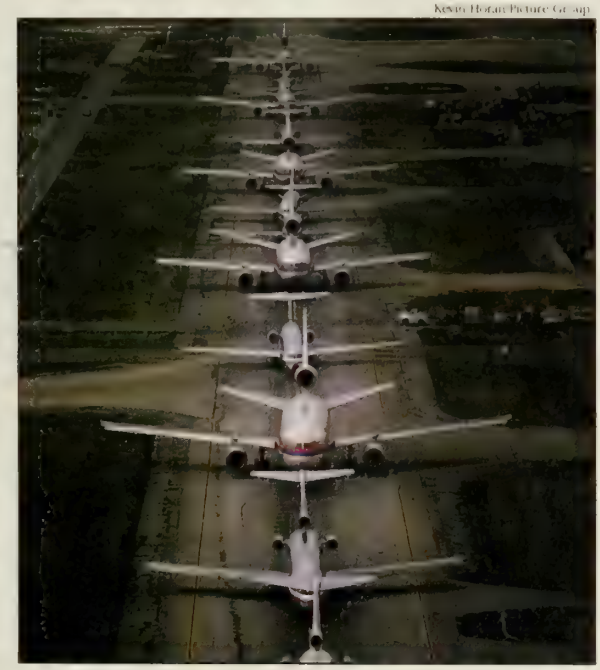
AFTER EARNING nearly $2 billion on operations last year, the U.S. airline industry has stalled out. In the fourth quarter of 1989 the industry had an operating loss of $513 million, and in the first quarter of this year an all-time worst operating loss of $685 million. Only a small handful of companies were profitable on operations, among them Delta, Southwest and America West. Eastern, even now that it is flying only around two-thirds of its old system, is said to be losing $2 million a day. Chicago's Midway, low on cash and heavy with debt, is ripe for picking. Pan Am, TWA and the Trump Shuttle are up for sale, with no takers yet. Even Delta admits it is being bled by Eastern in many of its markets.

There will be more bad news with second-quarter reports. Last year the industry earned a $971 million operating profit in that quarter; this year, with discounting rife again, the figure could be as low as $300 million. For the year, the industry will be lucky to break even.

What went wrong? One problem is overcapacity. The U.S. carriers are adding around 250 new aircraft this year, or roughly 10% of existing capacity, without proportionate increases in traffic. Despite discounting, load factors—the percentage of filled seats—are running at 4 to 6 percentage points below last year's level.

The weak airlines' problems drag everyone down. "When some carriers price for survival, the others are faced with two bad choices: Give away their passengers to the low-priced competitor, or match the price cuts and watch profits evaporate," explains Lee Howard, president of consultants Airline Economics.

Kevin Horan/Picture Group



Taxiing at Chicago's O'Hare Airport
Too many planes, too few flyers.

There is a silver lining in most dark clouds, and in this case the consumers will pocket the silver. Southwest has slashed one-way fares between the Los Angeles and San Francisco markets to $29 with advance purchase and $49 with no restrictions. In the East, Midway is selling cheap tickets to many East Coast destinations in books of five.

No help for the airlines is on the horizon. The so-called "B" wage scales that paid new pilots and engineers less than veterans are being phased out; labor costs will rise. Jet fuel is down in price, but by much less than the fall in crude oil prices.

Most troubling of all, capacity is set to rise further, with more new airliners on the way. In 1991 the U.S. airlines will take delivery of even more new jets than this year. Yet, so far, few older jets are being pensioned off to cut the excess capacity. And, so far, only one carrier, USAir, has delayed delivery of any of its aircraft on order. Expect more of both actions.

The industry amuses itself by picking candidates to follow People Express, Braniff and the rest down the chute. But don't expect anytime soon the hotly rumored acquisition of Eastern's rump by Northwest. It would be madness to take on Eastern's labor problems except at bankruptcy prices.

The biggest and still unanswerable question concerns Washington's reaction to the bleeding. Despite cutthroat fare wars, some politicians have long complained that airlines charge monopoly prices at their main hub airports, or even that they collude over fares. What these politicians want, of course, is an excuse to re-regulate. Never mind that deregulation has brought the consumer cheaper fares, Washington would hate to see any more airlines go bust. So look for the wonderful folks who made the S&L mess worse to try the same thing on the airlines business. ■

Realty brokers Glenn Markman (left) and Robert Martin (center) show a client some available Wall Street office space
With vacancy rates at 20% and climbing, today's low rents include renovations.

Michael Glück

Did you ever want to look down on New York harbor, Ellis Island and the Statue of Liberty? Now's a good time to strike a deal.

Top flr, grt views, $21 a square foot

By Richard L. Stern

ROBERT WILCOX, president of Wilcox & Associates, a sales promotion firm, is thinking seriously of moving his agency's offices to the Wall Street area. And why not? Wilcox has found 6,500 square feet of top-floor space in an older but attractive Broad Street building with a commanding view of New York's harbor and Ellis Island. Annual rent on a ten-year lease? Just $21 a square foot, including major renovations by the landlord—and one year's free rent. That compares with the $27 per square foot that Wilcox would have had to pay for the remaining two years of his lower Fifth Avenue lease.

Looking for something more posh? Word on The Street is that Shearson is looking to sublet the vacant top five floors in one of the World Trade Center's twin towers with spectacular harbor and city views. The space can be subleased for an effective rent of $29 a square foot. Two years ago it would have commanded at least $35 a square foot.

Glenn Markman and his partner Robert Martin of Wm. A. White/Grubb & Ellis note that spiraling vacancy rates and falling rents are a direct result of the problems of the financial service companies, the dominant tenants in the downtown area. The official Wall Street-area vacancy rate is 16%, a bit higher than in midtown Manhattan. But forget the official rate; when you count what is coming on the market, 20% or 25% is more realistic.

Currently vacant space includes 600,000 square feet from Bank of New York, a result of its merger with Irving Trust Co.; 600,000 square feet from the now-defunct securities firm of Thomson McKinnon; and 800,000 from Shearson Lehman Hutton. More is about to come on the market: 1.5 million square feet from bankrupt Drexel Burnham; another 1 million square feet Merrill Lynch is giving up at its old headquarters; and some 700,000 square feet that Salomon Brothers is giving up.

A little further out, Chase Manhattan Bank will give up about 1 million square feet as it moves back-office operations to Brooklyn. And two brokers—PaineWebber and Donaldson, Lufkin & Jenrette's Pershing division—together have given up 500,000 square feet of back-office space as they moved their operations to New Jersey.

The first wave of Wall Street contraction followed the 1987 crash. Now there's a second wave that includes major retrenchment by banks as well. In a time of determined cost-cutting, the less costly business environment across the water in Brooklyn and Queens and in New Jersey looks more attractive every day, particularly for back-office operations.

This is grim news for landlords, but very good news for renters. These days, Wall Street space is even looking good when compared to some areas in the rest of the country. While premium space is still a cheap $16 a square foot in Houston, effective rents for premium space are still $29 a square foot in Chicago, $36 in downtown Los Angeles and $34 in Washington. It's happy shopping for anyone who ever wanted the prestige of a Wall Street address but previously couldn't afford one. ■

West German workers don't work terribly hard. German companies, moreover, are taxed to the eyeballs. Capital-rich West Germany can afford a welfare state, but can its new eastern countrymen?

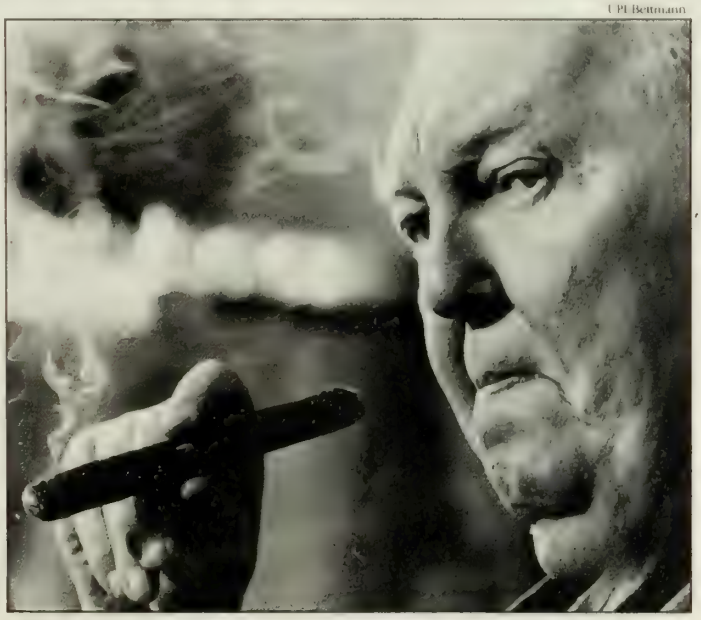
Ludwig Erhard, where are you?

By Peter Fuhrman

The scene: West Germany, 1948. A country in ruins, hungry, threadbare, with a worthless currency, a broken-down central planning system, unproductive farms and millions of unemployed. Onto this dreary stage strides Ludwig Erhard, West Germany's postwar finance minister, a man who not only believes in the benefits of a market economy but also knows how to run one. In June Erhard issues a series of proclamations that sweep away virtually all vestiges of the administered economy and introduce a new hard currency, the deutsche mark, to replace the reichsmark. The bureaucrats are horrified. No planning? The Occupation authorities are shocked at this wild experiment. Erhard persists and puts West Germany on the path to economic greatness and prosperity ahead of the arrival of large amounts of U.S. Marshall Plan money in early 1949.

The scene: East Germany, 1990. The roads and buildings are in better shape than in war-ravaged western Germany 45 years ago, but the economy is an even worse mess. Suddenly the political winds sweep away the trappings of socialist tyranny. But under what kind of economic system will the 16 million East Germans now live? A truly liberal and competitive free market system, like the one Erhard (who died in 1977) created? Or a facsimile of what the West German economy became as it grew rich—with its regulations, high taxes, subsidies and cartels? There is no Ludwig Erhard in sight.

Business tax. West German companies now pay tax at rates higher than in any other major Western economy. They can bear the burden because profits are high and industry is efficient and well capitalized. But these high taxes will hardly be bearable for East German firms, which need to build a base of equity and capital for investment and restructuring. The West German Economics Ministry understands this. It proposed lower corporate tax rates for East Germany. But this was shot down by a Finance Ministry worried that West German companies would then demand a lowering of their tax rates.



U.P.I. Bettmann

Ludwig Erhard, West Germany's postwar finance minister
Today his country rejects his tough, free-market policies.

Labor cartels. West Germany maintains an elaborate licensing system that effectively limits access to most service sector professions. To open your own business in fields like plumbing, baking, auto repair or accounting, you need first to spend years as an apprentice, and then pass qualifying examinations. This can take as long as eight years.

East Germany, with its underdeveloped service sector, needs self-employed people immediately in all these key fields. Yet the West German government, under pressure at home from service profession trade groups, has said it will not relax the requirements for East Germany.

Meanwhile, West Germany's powerful labor unions are already moving to take over their counterparts in the East. The unions want to guarantee East German workers a 37-hour week and minimum vacations of five weeks a year.

Government-run monopolies. West Germany's government-owned postal and telecommunications monopoly, the Deutsche Bundespost, will almost certainly be given the same right to operate free of competition in East Germany. The Bundespost's charges are among the highest in the world. Long-distance calls, for example, are more than three times the price in the U.S. A normal domestic letter costs 59 cents to mail. Prices in East Germany will likely be set at the same level, despite a per capita income level 70% below that in West Germany.

Regulations. The speed limit on the autobahn is about the only thing that goes unregulated in West Germany. In the trucking industry, for example, the government forces most truckers to make their return trips empty. Artificially high trucking fees will do little to encourage cheap and efficient transport in East Germany.

Another sore spot is a West German regulation that sets shopping hours across the country. Shops must close on Sundays, at 1 p.m. on Saturdays, and by 6:30 each weeknight, except Thursdays. For East Germans, having the shopping law apply in their country will deny them a real chance to build a strong retail industry in competition with that in the West.

The West German government doles out $45 billion a year in domestic subsidies. That's 3.6% of GNP, three times the level in the U.S. In the coal mines and shipyards, government payouts total more than $15,000 annually per worker. Farmers do almost as well. The agricultural subsidies and protection will likely be expanded to East Germany's 900,000 farmers. This would push food prices quickly to West German levels.

In dealing with these problems, German Chancellor Helmut Kohl lacks the free hand that Ludwig Erhard had. Erhard didn't have to run for office at the time. Kohl does. According to a senior official at the Economics Ministry in Bonn, Kohl is worried that allowing a more open free-market system in East Germany might cost him votes in the forthcoming pan-German election.

Thanks to Erhard's free-marketeering, West Germans can afford a welfare state in 1990. Thanks to nearly a half-century of socialism, eastern Germany cannot. Political unity is already well along; economic unity is going to be a tougher nut. ■

Central Europe is an enormous, car-starved market. General Motors storms forward while Ford hangs back.

A tale of two strategies

By Peter Fuhrman

IN A BOLD six-month blitz beginning in January, General Motors has stormed across the Elbe River and into the heart of Central Europe.

GM is certainly aware that Eastern Europeans lack the hard currency necessary to buy its made-in-Germany Opel cars. It neatly solves the problem by planning to build Opel engines in Hungary with a local partner for export to the Western European plants; the engines will be swapped for Opels to be sold in Hungary. General Motors plans a similar move in Czechoslovakia.

In East Germany, now awash with rock-hard deutsche marks, GM Europe has started up a joint venture with AWE, an automobile company that has been turning out clunky little Wartburg cars. The GM venture will assemble 10,000 Opels from kits in the next 12 months, with the prospect of a full-fledged Opel assembly plant following in a few years' time.

So far GM has signed up 300 dealers in East Germany and expects to have 100 more by year-end. So what if most dealerships are now just roped-off areas on some empty lots with bright yellow Opel pennants fluttering and a few Opel models parked in a line? The East Germans are standing in line with their eyes glistening, and GM says it already has sold 10,000 new cars.

"We have to get in [to Eastern Europe] fast or lose out," says Jack Smith, who built the extremely profitable European operation and was rewarded with the number two ranking at GM in Detroit, vice chairman.

The company's market research shows that a new car is now the most sought-after consumer durable in East Germany. GM projects sales of 500,000 new cars per year in East Germany by 1992, rising to 700,000 per year by the end of the decade. Opel people figure they can grab 25% of the East German market, well below Volkswagen's projected 45%, but far ahead of archrival Ford.

So what's Ford doing? Holding back. "We think there will be lots of economic dislocation, and don't see the new car market developing as quickly as they do," says Duncan Rooke, who heads up Ford's sales effort in East Germany. Ford has just announced plans for its first factory in Eastern Europe, an auto parts plant in Hungary. But it has lined up fewer than 100 dealers, a third the GM total in East Germany alone.

"There are a lot of false expectations about Eastern Europe, and no reason to think that just because we aren't the first ones into the market, we will be shut out," explains Bruce Blythe, Ford of Europe's vice president-business strategy.

Behind the dramatically different strategies are sharply distinctive European personalities. GM Europe, while it has a British unit, Vauxhall, is basically a German company. The drive into Eastern Europe is being plotted from Opel headquarters near Frankfurt.

Ford of Europe, by contrast, is in many ways thoroughly British, having opened its first plant in Europe in 1911, just outside Manchester. Ford of Europe is based in Brentwood, a London suburb. From Brentwood, Eastern Europe looks a distant, downtrodden, politically volatile place.

Ford, too, is still digesting Jaguar, its $2.5 billion acquisition, with much work to be done—designing new models, modernizing the plant, struggling with the unions. Jaguar represents a move by Ford to get a bigger piece of the world market for luxury cars. Ford is more interested in that than in getting an early foothold in mass markets in the East. ■

Derek Hudson/Sygma

GM Opels on sale in East Germany
"We have to get in fast or lose out."

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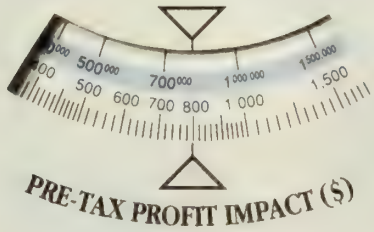

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On the Docket

By voiding clauses that impede the government's ability to go after the thrifts' liability insurance plans, courts are spreading the costs of the S&L bailout to insurers—and, ultimately, to consumers.

Everybody pays

By James Lyons

If you still think you want to join a big corporate board, think again.

Back in the good old days, an invitation to become a director was considered an honor—a tangible, and often lucrative, symbol of having made it to the top. But in recent years board membership has also meant automatic entry into another sort of club—the brotherhood of corporate defendants.

Throughout the 1980s, liability claims filed by directors with their insurers jumped between 5% and 15% per year. As litigation and claims have mounted, so have the premiums companies have paid for directors' and officers'—or D&O—liability insurance. The Wyatt Co., a Chicago-based actuarial and consulting firm, says premiums rose almost thirteenfold between 1984 and 1988, primarily as a result of shrinking capacity in the traditional insurance market.

Very few things go up forever, and it appears from Wyatt Co.'s latest data that D&O insurance premiums may have peaked. For 1989, Wyatt's D&O premium index actually showed a 6.5% drop from the year before. Of 1,537 organizations surveyed, 58% reported a drop in premiums; 24% said premiums were steady; only 18% experienced an increase.

Good news? Well, yes and no. Part of what's happening is called the free market. When premiums skyrocketed in the mid-1980s, new players came into D&O underwriting. The predictable result was old-fashioned price-cutting—but at a time when the cost of defending an average director's suit was reaching $1.3 million, up from $1.1 million in 1988 and a mere $483,000 back in 1980. The insurers, in short, have traded profitability for market share. That is good news only in the short run.

Most positively affected have been smaller companies. The frequency of claims filed against corporations with under $100 million in assets peaked in 1984 and has been dropping slightly ever since. For companies with assets between $100 million and $1 billion, claim frequency peaked in 1987 and has remained basically steady for the past two years.

Phil Huling

But, for large corporations, claim are still rising. This is particularl true for companies involved in merg ers, acquisitions or divestitures: Wy att says these companies stand mor than twice the chance of being sued a those that choose to mind their ow business.

Not surprisingly, insurers aren' terribly cheered by talk of softenin premiums. "Claims experience for u is establishing that premiums are in adequate for the risks assumed," say Jeffrey Greenberg, president of Na tional Union Fire Insurance Co., a subsidiary of the American Interna tional Group. Agrees George (Terry Van Gilder, a senior vice president o Chubb & Son Inc., "We are now at a disproportionately low place in the market." Together, AIG and Chubb control about half of the D&O insur ance market.

What really scares many insurance executives is the likely liability fall out from the savings and loan mess Normally, directors' and officers' pol icies exclude coverage when a board is hit with a suit by a government regulator. But recently several courts have thrown out these exclusions, enabling the government to chase after a D&O policy just as they would any other asset.

One case now being closely watched by insurers is Finci v. American Casualty, which was decided in May by the Maryland Court of Special Appeals. Finci is a former director of First Maryland Savings & Loan, a failed thrift that was taken over by state regulators in 1985. The trial court found the state regulators to be entitled to recover nearly $3 million from the thrift's D&O policy. Upholding that judgment, the appeals court ruled the regulatory exclusions to be "contrary to public policy" and therefore "void and unenforceable."

American Casualty is seeking a review of the controversial decision by the state's highest court. Meanwhile, about 20 cases have considered the Federal Deposit Insurance Corp.'s authority to knock out D&O policy exclusions. In the majority of these cases the courts have ruled in favor of the agency.

Striking down exclusionary clauses doesn't necessarily make good law. But it's a politically expedient way to help spread the cost of the thrift bailout beyond the taxpayers to the insurance companies. They, in turn, will pass their costs on to the customers. Everybody will pay. ■

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Fumbles

Doing deals is easy. Making businesses perform is tougher. Tom Tanis, 71-year-old business broker turned high-tech entrepreneur, is learning that the hard way.

Oops

By Fleming Meeks

A YEAR AGO a reporter found it difficult to get Thomas Tanis Sr. off the telephone. Tanis was bursting with enthusiasm over the prospects of World-Wide Technology Inc., the company he and his son Tom Jr. had taken over in 1987. Their strategy was particularly brilliant compared with the disastrous performance of World-Wide's predecessor, a basket case called Computone Systems (FORBES, *Apr. 6, 1987*).

What was Team Tanis' strategy? Deals. Despite a complete lack of experience in the high-tech arena, they figured they could snap up a spate of poorly managed companies on the cheap, merge them and turn them into moneymakers.

Using the carcass of Computone as their vehicle, the Tanises had within just 18 months spent $20 million on four smallish acquisitions, all of them moneylosers. "We've fixed 'em quick, because if you don't fix 'em and they start bleeding, in a company this size, it gets noticed immediately," said the plump and affable Tanis Sr. of his acquisitions. Chief Financial Officer Ronald Johnston even went so far as to predict that the company would earn an operating profit of $8 million on roughly $90 million in revenues in fiscal 1990, ended Mar. 31.

"We think in a five-year span we can build a $400 million to $500 million company," Tanis boasted when a FORBES reporter visited World-Wide's Radnor, Pa. headquarters last August. We left promising to revisit the Tanises after their company had put another year of operating results under its belt.

Leif Skoogfors/Woodfin Camp

World-Wide Technology's Thomas Tanis Sr. and son Tom Jr.
Why are these men smiling?

A lot can happen in a year. Today Tanis Jr., who has worked at his father's side for most of the past 15 years, comes to the phone only reluctantly to discuss his company, and who can blame him? Far from earning anything, World-Wide saw losses rise more than twelvefold, to nearly $5 million, last year, on revenues of $48 million. A big subsidiary is now in bankruptcy, and the company is scrambling to replace a $10 million credit line that Barclays Bank intends to call in September.

What happened? Like many would-be entrepreneurs of the Eighties, Tanis Sr. seems to have felt that dealmaking was nine-tenths of the battle in business. "I've seen too many bad deals in my time," Thomas Tanis said last year. "I had no intention of going into something I could not be successful in." The record suggests, however, that little thought seems to have gone into what World-Wide would do with its acquisitions once the ink on the purchase documents dried. One strategy, for instance, was to pair a line of computer monitors with the computer boards produced by another World-Wide unit and market the result as graphics terminals for high-performance workstations. But in this fledgling market for high-end computer terminals, World-Wide is going up against giants like NEC.

Before playing entrepreneur, Tanis, a 71-year-old native of Philadelphia who dropped out of Wharton, spent more than 40 years as a business broker, buying and selling little companies for clients like Plough Inc., GTE and Whittaker Corp. But in the 1980s the investment bankers began treading on his turf; Tanis and his son, now 36, changed strategies and became acquisitors themselves.

After taking control of the bankrupt (but still publicly traded) Computone in July 1987 for $1 million in cash and notes, they immediately shut down the company's computer stores, software operations and an insurance unit. All they salvaged was a tiny computer peripherals unit.

Unfortunately, the operation's top three engineers had left to start their own company months before the Tanises took control. To woo them back, Tanis issued them 387,000 shares of World-Wide stock to buy their upstart firm, which had a book value of only $175,000. (Not that the managers got such a great deal: World-Wide's stock recently traded at 1⅛, down from 3¾ last August. Total shares outstanding: 6.5 million. The Tanises own roughly 2.4 million shares.)

To manage World-Wide's overall operations, Tanis brought in John Freitag, now 61, from Whittaker Corp. Freitag was lured in July 1988, with options to buy 200,000 World-Wide shares for a penny a share. Freitag was well connected to Saudi Arabia, and quickly earned his keep by placing $10 million in convertible preferred stock, at $8 a share, with Brisco Investments, an Isle of Man-based firm apparently controlled by one of his Saudi connections. World-Wide has since accrued $1.5 million in unpaid dividends on the private placement.

World-Wide used more than half the Brisco cash, plus $7.7 million in notes, to buy ailing Princeton Graphics, a U.S. designer and marketer of computer monitors. Princeton's operating losses came to nearly $1 million last year.

Shortly after the Princeton acquisition the Tanises scooped up something called CYMA, which makes accounting software, from McGraw-Hill for $200,000 in cash and $800,000 in notes. They claim CYMA is operating profitably.

World-Wide also started another software company, Lynx Software, in March 1989. Despite the fact that, as of last August, the first product had yet to be determined, Freitag at that time insisted that Lynx would break even on the year. In fact, Lynx just began shipping products in May.

In 1989 Tanis Sr. decided to buy Denison Industries, a Texas-based aluminum foundry whose business was mainly with the defense industry. Explaining this $4.6 million acquisition, Tanis said, "We planned all along to have a defense electronics group"—the idea being that Denison would give World-Wide Technology a chance to get its feet wet in the defense procurement process. At a trade show last October, Tanis Jr. boasted to FORBES that Denison had already gone into the black.

Maybe so. But just 14 months after its acquisition, the division has filed for Chapter 11. Losses and writeoffs on it now exceed $4 million, and World-Wide's so-called Defense Products Group has been folded.

What's next for the Tanises? For now, their biggest challenge will be to scrape up enough cash to keep the company from resubmerging in Chapter 11, an unenviable task.

Last August Tom Tanis Sr. explained why people should believe in his ability to string together unprofitable acquisitions into a profitable company. "Look at our track record," Tanis urged. "It's not very long, but we've accomplished an awful lot in a short amount of time." And it was true: He had done a lot of deals. But he lost sight of the fact that the difficult part of an acquisition typically comes after the deal has been cut. That's true for small businesses as well as for big ones. ■

Leif Skoogfors/Woodfin Camp

World-Wide President John Freitag
The losses are multiplying.

Niches

John Latendresse ran away from home and was helping gamblers hock their jewelry when he began to learn about pearls. Today Japan's pearl industry depends on—and fears—him.

Shell game

By Lisa Gubernick

JOHN LATENDRESSE doesn't want to hear about how Japanese cameras, cars and VCRs are flooding the U.S. He's doing his own bit to chip away at the trade imbalance.

"If it weren't for this shell," he says, fingering a thick mussel shell just pulled up from a Tennessee lake, "the Japanese wouldn't have any pearls."

He's right. Although 80% of the world's cultured pearls are made in Japan, at the center of just about every one is a tiny piece of shell formed in the depths of an American lake or river. Latendresse, 64, supplies more of those shells than anyone else. His privately owned Tennessee Shell Co., Inc. (projected 1990 revenues, $16 million) is headquartered in Camden, Tenn., a village about two hours from Nashville.

Last year Latendresse shipped 6.2 million pounds of shells to Japan, roughly 40% of the total imported. Once there, the mussel shells are sliced, diced and milled into beads, which are then inserted into the country's renowned Akoya oysters. The Akoya oysters treat the beads as an irritant, coating them with the opalescent nacre that gives the gems their iridescence.

Why American mussels? After years of experimentation, the Japanese discovered that those shells, which won't grow in Japanese waters, are less likely to be rejected by Japa-

Rich Mays

Tennessee Shell's John Latendresse
If it weren't for American shells, the Japanese wouldn't have pearls.

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Photos by Rich Mays

Shell diver working a Tennessee lake
Latendresse established the closest ties.

nese oysters and will produce more uniform pearls.

Born in South Dakota, Latendresse is an unlikely pearl-meister. He left home at 13 and lied about his age so that he could join the Marines at 15. He fell upon the gem business while doing a stint in a cashier's booth in Reno, Nev., after leaving the service.

"We had people hocking their jewelry to get more money to gamble with," Latendresse explains, "and we'd have to call a retail jeweler to make an appraisal." Latendresse became fascinated by one of the more arcane facets of the American gem business, freshwater American natural pearls, and went into business for himself.

In the mid-1950s, he traveled the Mississippi River Valley buying gems from the pearl harvesters and selling them to wholesalers. That business doesn't exist anymore in the U.S., because of pollution and the damming of rivers. As a result, necklaces of round American natural pearls are extremely rare; they can be worth over $100,000. By contrast, a strand of cultured pearls of reasonable quality starts at around $1,000.

In his travels Latendresse discovered the pearl harvesters' primary business: selling mussel shells to brokers, who in turn shipped them to button manufacturers as well as to Japan. At the time, the shell industry was dominated by small, family-run businesses. Latendresse figured that if he out-hustled the family firms he could get a piece of the action.

Latendresse made two smart moves. First, he took on a Japanese partner (since bought out of the business) to help maintain the relationships with the Japanese pearl companies. Second, he established close ties with the shell diggers along the river. (Divers now do the job.)

An American mussel shell
Sliced, diced and turned into pearls.

"He [Latendresse] hustled up and down the rivers and was just more aggressive about establishing relationships with the divers than anyone else," explains Einie Blumenfeld, a retired Tennessee shell dealer.

By the mid-1960s, Latendresse dominated the business.

Although shells are still his main source of income, Latendresse has started to take on the Japanese at their own game. Over the last decade Latendresse has been perfecting a method of producing cultured pearls here. He hasn't taken on the biggest market, saltwater oysters. Instead, he's moved into the area where the Japanese are weakest, freshwater pearls cultivated from mussels. A strand of cultivated, round freshwater pearls is roughly equivalent in price to a strand of saltwater pearls of similar weight and quality. Today Latendresse has five mussel farms scattered through the South, each guarded by an armed sentry and marked with buoys labeled "Warning: Biological Experiment. UNDERWATER OBSTRUCTION." The mussels are seeded in his three pearlmaking laboratories—brightly lit trailers where young men and women in white lab coats spend eight hours a day tweezing open mussel shells and inserting mussel-tissue-wrapped shell fragments into the meat.

The majority of the pearls Latendresse produces are used in his own jewelry-manufacturing operation, also based in Camden. He wholesales pieces to a variety of outlets, including Service Merchandise stores and Jewel Masters, a 76-store chain based in West Palm Beach, Fla. The pieces range from a $50 pendant to a $5,000 pearl-and-diamond brooch.

So far, however, the most popular pearl product has eluded him—he's been unable to produce uniformly round pearls for necklaces in sufficient quantity to have an impact on the market. That may be changing soon, though. By next summer, Latendresse claims he will have harvested enough uniform pearls to bring his first necklaces to market.

The Japanese pearl growers aren't at all pleased with the new competition. "We have to depend on him for our supply of shells," says Koichi Takahashi, a New York-based vice president for Mikimoto Pearls, "but we are angry that he claims he is making pearls that are better than the Japanese." Mikimoto has tried to harvest freshwater mussels in several Chinese rivers, but, Takahashi concedes, they have yet to generate a big enough supply of shells.

Latendresse relishes the battle. On a recent trip to Japan he met with several trade and government representatives. "Everything was real nice till the end," he recounts. Then one of the officials looked at him accusingly: " 'Mr. Latendresse,' he said, 'you know you are supplying Japan with so much of the nucleus of our cultured pearls. And you know that the pearl is part of Japan's culture. You really have no right getting involved in this business.' "

Latendresse says he replied: "Well, sir, Henry Ford is part of our history, and he is certainly part of America's past. Look at Toyota, Nissan—just what have you people done with Ford's idea?" That response, he says, was greeted with such silence you could have heard a pearl drop. ■

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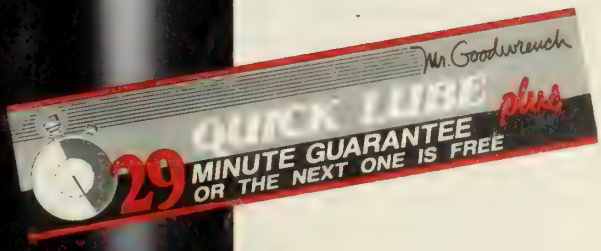

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Because of a laxity in the federal law covering pension plans, your pension may not be as safe as you think.

Is there a leak in your pension piggybank?

By Gretchen Morgenson

If you think the nationwide slump in commercial real estate doesn't touch your investments, you probably haven't looked in your pension plan lately. For a pension plan manager to be considered prudent, he is encouraged by the Employee Retirement Income Security Act (ERISA) to diversify his portfolio. As a result, pension managers usually place about 5% of their plans' assets in real estate; some go as high as 20%. Which means, if real estate drops in value, so does the coverage behind your pension plan.

Pension fund assets in the U.S. are approaching $3 trillion, with real estate holdings estimated at around $150 billion.

What kind of real estate? The larger pension funds typically invest in private deals or actually buy properties outright. Smaller funds, say in the $5 million or less range, usually do their real estate investing through public limited partnerships.

There are an estimated 30,000 of these smallish pension plans nationwide, managing as much as $150 billion for the benefit of physicians, dentists, lawyers, small business owners and their employees. Happily, the pension trustees don't usually make wild investments. They are supposed to stick with lightly leveraged income partnerships. But that doesn't mean the assets and income don't fluctuate in value. They do.

Take Shurgard Storage Centers. Shurgard, a syndicator that has raised $700 million from investors including some small pension funds, is in the business of building and buying mini warehouses. Lately an overabundance of these warehouses nationwide has hurt industry revenues; Shurgard recently slashed quarterly cash distributions on one partnership from $12.50 a unit to $7.50.

But the way real estate syndicators keep their books, they do not often mark their properties to market. With stocks and bonds, by comparison, market value is always used. Thus, a great deal of real estate held in partnerships has declined in value substantially in recent years, yet most investors believe their holdings are worth roughly what they paid for them during the real estate heyday. This can give a false sense of security.

Eric Labbe

ERISA guidelines say that pension assets should be stated at their current market value "where available." If not available, ERISA will accept a value determined by a fiduciary; in real estate partnerships this duty generally falls to the general partner.

Left to their own devices, most general partners do not assign real market values to their partnership holdings. Instead, they value these assets either at cost or at a so-called appraised value, both of which are, given the depressed realty market, much higher than market value. In some cases, taking these valuations seriously is rather like owning a stock that has dropped in value but still counting it as worth what you paid.

Considering that the property behind a significant number of these partnerships has dropped anywhere from 25% to 75% in market price, the overvaluation in pension fund assets can be considerable. For a model of how limited partnerships should currently be valued, look at the most liquid of all property investments—real estate investment trusts. On average, publicly traded REITs fetch prices today that are about 25% below their so-called appraised values. Partnership interests, because they are illiquid, trade at even greater discounts.

Many pension account managers open their statements each month to find, happily, that the value of their real estate limited partnerships stands roughly where they bought them. Illusion, pure illusion.

Does it much matter? It could. Pension managers pay out retirement benefits based on the stated value of assets held in the pension's portfolio. Therefore, if those assets are carried at inflated values, the folks first in line at the benefits window will get the promised pensions. The fellow who's last in line might have to take a haircut unless real estate values recover by the time his claim comes due.

As custodians for pensioners and prospective pensioners, the banks or companies that operate as trustees have fiduciary duties to their pension plan investors, which should include true valuations. But many avoid that duty in this case. Some of the largest trust companies, such as Denver-based First Trust Corp., argue that it is the general partner's job, not theirs, to provide accurate valuations.

But the Bank of California, a subsidiary of Mitsubishi Bank, believes its clients should know the real value of their accounts. It recently began independently appraising real estate partnership units in clients' pensions. In one account, an asset was marked down from $750,000 to $250,000.

Unless real estate values recover in the fairly near future, a lot of small pension funds heavily invested in real estate could soon find themselves in the embarrassing position of being underwater. ■

"For I dipt into the future, far as human eye could see... saw the heavens fill with commerce, argosies of magic sails."

ALFRED LORD TENNYSON

It may come as no small surprise to some people that NASA is in a State of Change. Literally. Right here in Mississippi.

In 1961, NASA made the decision to build its Mississippi Test Facility in South Mississippi. Today, known as the Stennis Space Center, the facility is a sprawling 13,480-acre space shuttle engine testing laboratory and scientific think tank with over 5,500 employees providing support services to 19 resident federal and state agencies.

Success breeds success. Earlier this year NASA made the decision to locate yet another facility here, in Northeast Mississippi. This team effort between Lockheed and Aerojet will be a state-of-the-art solid rocket motor assembly plant to implement NASA's billion dollar program to build the next generation of rocket boosters for our space shuttle program. John McMahon, president of Lockheed Missiles & Space Company, says: "Our reception here has been overwhelming. We plan to hire most of our work force from the region."

Our labor force is one of the most important reasons NASA chose Mississippi twice. Roy S. Estess, director of the Stennis Space Center, says, "We have a skilled work force here that is second to none. It's the difference between just doing a job and doing the best job they can."

Mississippi is indeed the State of Change. Like NASA, it wasn't too many years ago that we embarked on a mission. A mission of excellence in every area from education to economic development. And the progress we've made is nothing short of extraordinary.

We have one of the most aggressive and progressive education reform programs in the country. And more reforms are in the works.

We've reorganized our state and county governments to increase efficiency. We've created some unusual economic development incentives including tax credits for training and day care, plus a variety of community-based programs.

According to Estess, "When industrial America comes here, they'll find tremendous community support, whether it's the people in the communities or an economic development board. The people really want you here."

If you'd like more information on the State of Change, call or write Governor Ray Mabus or J. Mac Holladay, Director; Mississippi Department of Economic and Community Development; P.O. Box 849; Jackson, Mississippi 39205; 1-800-647-2290 or (601) 359-3449.

The State of Change

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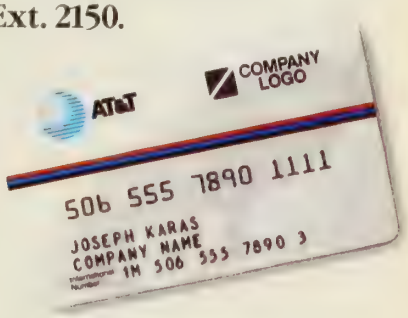

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Once a great name on movie screens, the Rank Organisation no longer makes films. But it is still a big factor in the global entertainment business.

Rank returns to its roots

By Jeffrey Ferry

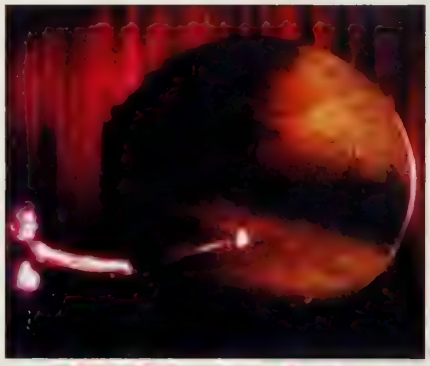
LORD J. ARTHUR RANK was one smart Briton. An austere millionaire flour miller with no experience in the film business, in the 1940s and 1950s he built the Rank Organisation Plc. into a major factor in the global movie business. From Rank's Pinewood Studios near London rolled scores of high-quality films, greatly enhancing the world reputation of British films. In Britain many of the films played in Rank's hundreds of movie houses.

That was one of his towering accomplishments. The other was Rank Xerox. In the 1950s he approved the decision for his company to buy a one-third interest in the rights to distribute Xerox Corp.'s products outside the U.S. Xerox and the copying industry were little more than a promise at the time. Today Rank Organisation, traded in London, owns 49% of independently managed Rank Xerox; Xerox owns the other 51%.

Rank died in 1972. Unfortunately, his right-hand man and successor, Sir John Davis, squandered the proceeds from this profitable venture in diversifications like home appliance and electronics manufacturing.

Finally, in 1982, a big drop in pretax profits sparked a shareholder revolt that swept out Davis and swept in Michael Gifford. Formerly finance director at Cadbury Schweppes, Gifford undid most of the diversification and put the company back on the track set by the deceased founder. He reinvested the proceeds of the divestitures in the kinds of leisure and entertainment businesses that originally caught J. Arthur Rank's shrewd eye.

Today the Rank Organisation does $1.7 billion in revenues from five well-focused divisions: film and television; leisure (vacation facilities); hotels and catering; recreational vehicle sites and theme parks; and sophisticated electronics equipment, mostly linked to television. Leisure is much the largest division, accounting for 40% of Rank's operating (i.e., non-Rank Xerox) profits last year.



Former cinema giant
From Henry V and Hamlet to Xerox.

No longer does a half-naked giant strike a huge gong to introduce Rank-made movies—BONG! J. Arthur Rank Presents—as he did for the likes of *Henry V* and *Hamlet,* both starring Laurence Olivier. Rank no longer makes feature films. But, behind the scenes, it has become a major force in Hollywood, having acquired BHCP video duplicators, Film House film processors and (after an expected U.S. Justice Department approval) the Deluxe film lab, bought from Fox Inc. in April. It is a partner with Hollywood's MCA in a wide range of things, including video, film and cinema.

As a result of this relationship with MCA, Rank was invited in early 1988 to take a 50% equity position in MCA's $600 million Orlando, Fla. Universal Studios theme park project. This could be to Rank in the decade ahead what Xerox was in the 1960s. Merrill Lynch's veteran entertainment industry analyst Harold Vogel thinks Rank's stake in the Orlando theme park will be a major profit center once some of the early teething

Working-class Brits at Rank's new waterworld in Stoke
Undaunted by a consumer slump, the company plans to open four more sites.

Ray Farrall Photoreporters

The MCA/Rank Universal Studios tour in Orlando
Profits in Florida today, Paris tomorrow?

problems are overcome.

MCA plans to follow Disney into Europe and has already asked Rank to be its partner there, too. No deal has been struck, but one probably will be, and there is every reason to believe that MCA's European theme park, targeted for opening in 1994, will be at least as good as the Orlando project. Europeans already have more leisure time than Americans, with the typical European annual holiday lasting four to five weeks, double what an American worker gets. German trade unions are now pushing not for more money but for a 35-hour workweek.

Where will the new theme park be situated? MCA is leaning toward the Paris suburbs, to be near Euro-Disney, thus turning Paris into the Orlando of Europe. But some say Rank's people are lobbying for Rainham, 30 miles east of London; that would benefit Rank's other British-based leisure and entertainment businesses.

In the related leisure field, Gifford has captured for Rank a large share of the traditional British working-class holiday market. Careful management and massive investment in glamorous American-style "waterworlds" have given new life to the old Butlin chain of holiday camps that Rank acquired in 1972. In the two years to 1989 the leisure division's operating profits nearly doubled, to £79 million.

Last October Rank opened a 23-acre leisure center at Stoke, in Britain's industrial heartland, 150 miles north of London. Attractions include a waterworld, complete with flumes, wavepools, slides and rapids. There's an 8-screen multiplex cinema, a 30-lane bowling alley, dry ski slopes and high-tech flight simulators. Unashamedly offering Brits the kind of southern Californian culture that is much in demand around the world, the Stoke center is doing well. The consumer slump may hurt Rank's profits slightly this year, as Gifford recently acknowledged, but the company is pressing ahead with plans for four more similar leisure centers, to be opened starting in the fall.

And the beat goes on. In early July, after a two-month fight, Britain's debt-laden Mecca Leisure Group (it earned $163 million on revenues of $1 billion) capitulated to Rank's $990 million acquisition offer. Mecca's chain of vacation sites and 85 bingo parlors will provide economies of scale when combined with Rank's existing operations.

Old J. Arthur Rank would probably regret that his gonging giant no longer appears on new movies, but he'd be pleased with the financial results. ■

Buyer beware. Bank CDs and Eurodollar deposits are far below their real credit risks.

What's wrong with this picture?

By A. Gary Shilling

EVERYONE knows that U.S. banks and other financial institutions are in real trouble—or do they?

There's no secret about the growing number of bad bank loans to Third World countries, commercial real estate and LBOs, and who knows what the next nasty surprise will be. These dubious-quality loans already add up to $600 billion, according to Lowell Bryan, director of the consulting firm McKinsey & Co.; that figure is over two times the banks' loan-loss reserves and stockholders' equity combined. And matters will only deteriorate in the next recession, which the economy may already have entered. National publications scream about the banks' problems. Rating agencies are downgrading bank debts continually. Shorting bank stocks has become a favorite pastime for many portfolio managers (including A. Gary Shilling & Co.).

Yet, against what should be nervous concern, investors are demonstrating an inexplicable level of complacency. Investors, whether individuals or firms, are showing very little hesitancy to hold the obligations of the troubled U.S. banks. At stake here are not credit-risk-free FDIC-insured deposits. The question relates to bank-issued certificates of deposit, Eurodollar deposits and the uninsured obligations of other issuers, for that matter. In fact, the willingness to hold these obligations in preference to credit-risk-free Treasurys is increasing, not decreasing.

Consider the chart. It shows the spread between yields on three-month CDs and yields on three-month Treasury bills. This and similar spreads are excellent measures of public confidence in the banking system: The bigger the spread, the lower the confidence. For example, that spread shot up to 435 basis points in mid-1974, when Franklin National Bank and West Germany's Bankhaus Herstatt collapsed. The spread was also at high levels amidst the financial turmoil of the late 1970s and early 1980s.

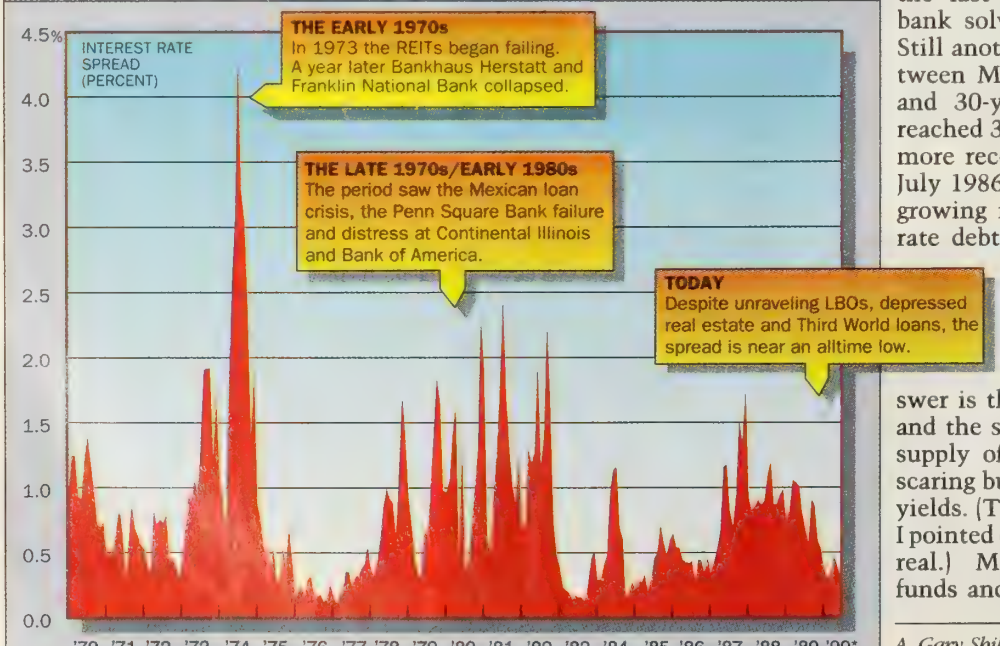
Given all the banking system's problems, you would expect today's spread to be a wide one. And you'd be dead wrong. The CDs/Treasurys spread *declined,* to just 34 basis points in June. This is not far from the record low of the last two decades.

Other measures confirm this anomaly. The spread between the prices of three-month Treasury bill futures and three-month Eurodollar futures—the so-called TED spread—has fallen from 160 basis points to 70 basis points in the last 18 months, during which bank solvency problems have risen. Still another gauge, the difference between Moody's Baa corporate yields and 30-year Treasury bond yields, reached 376 basis points in 1982 and, more recently, declined from 289 in July 1986 to 173 in June, despite the growing risks for lower-grade corporate debtors in the intervening four years.

Why are lenders accepting less premium for risk at a time when risk is increasing? In part, the answer is that the rising federal deficit and the S&L bailout are boosting the supply of Treasury bills and bonds, scaring buyers into demanding higher yields. (Those fears are unfounded, as I pointed out in my July 9 column, but real.) Meanwhile, money market funds and others that compete more

Peaks of concern, valleys of complacency

A wide spread between yields on three-month CDs and Treasury bills (converted into equivalent Treasury bond yields) indicates concern about credit risk. Narrow spreads suggest the markets view the banking system complacently. Why is today's spread so low?



* Through June. *Source: A. Gary Shilling & Co.*

A. Gary Shilling is president of A. Gary Shilling & Co., economic consultants and asset managers, and a regular FORBES columnist.

by offering yield than by offering quality are bidding up the prices of CDs, commercial paper, Eurodollar deposits, etc. and depressing their yields.

Nevertheless, without the complacency of those who own such uninsured investments directly, or indirectly through money market funds and other intermediaries, the spreads would now be narrowing. Do those holders believe that banks and other issuers are simply too big to fail? The demise in their day of Herstatt and Franklin, both large institutions, suggests otherwise. So does the more recent example of Drexel, which failed without any official rescue attempt.

One can be chary of the very narrow spread without forecasting a wave of major bank failures—although several may indeed bite the dust before all the banks' difficulties are resolved. But stresses and strains within the banking system may become so intense and widespread that today's complacency will disappear and the yield premiums that offset risk will rise considerably. Investors and lenders who fail to see this coming will watch the capital value of their paper erode.

To avoid potential capital losses, the first thing to do is be fully aware that Treasury obligations and insured deposits have inflation risks, but they do not have credit risks. By contrast, CDs, Eurodollar deposits, commercial paper and money market funds backed by them, as well as corporate bonds, etc., have both inflation and credit risks. The trick for investors is to make sure they are adequately compensated for risk. Yet it is amazing how many sophisticated people search diligently for the money market fund or other short-term paper with the highest yield, without realizing that it isn't the same as an insured deposit, and that they could be saddled with much more risk in return for just a few more basis points.

There's nothing wrong with assuming risk if you are paid adequately to assume it. Commensurate reward for a given level of risk is the principle at the heart of competent financial markets. But right now in CDs, Eurodollar deposits and many other fixed-income instruments the reward is not commensurate with the risk. This is a great deal for the banks, but potentially a terrible deal for investors and others who lend to the banks. It cannot go on much longer. ■

These are the worst of times for the savings and loan industry. How come H.F. Ahmanson & Co. is sound and prosperous?

Not all thrifts were created equal

By Marc Beauchamp

RICHARD DEIHL, conservatively attired and normally low-key in his manner, is angry. "This is a legitimate industry," he fulminates. "We are not in trouble. We are in good shape. We are not crooks!"

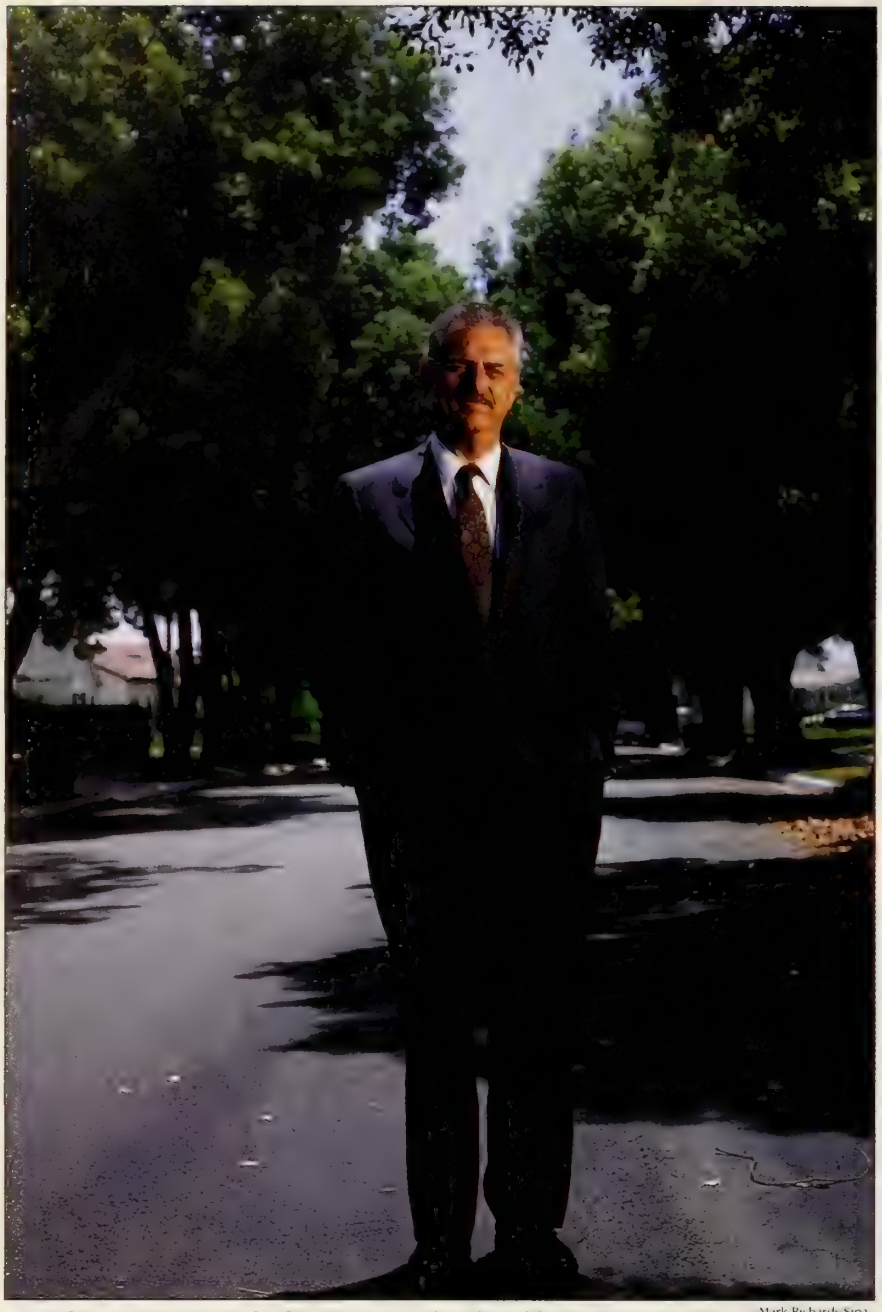
Since 1983 Deihl has been chief executive of H.F. Ahmanson & Co., the Los Angeles-based parent company of Home Savings of America, the nation's largest savings and loan. It is also one of the nation's few really healthy major thrifts. During the past two years Ahmanson's deposits grew more than 50%, to nearly $34 billion, and its assets grew by a like percentage, to over $45 billion. Meanwhile, it reported about $200 million annually in profits, and did so based on accounting practices widely considered to be conservative.

What's the secret? No secret. At a time when other people were using S&Ls for speculative purposes, Deihl made sure that Ahmanson continued doing what S&Ls were supposed to do: take in people's savings and relend it to home buyers. Ahmanson has never bought a junk bond. It has lately avoided high-cost brokered deposits. Its cost of funds averages 7.7%, versus the industry average of 8.2%. Today Ahmanson is earning between 17% and 20% on tangible equity. Even its stock (which Deihl says is "woefully undervalued") has held up reasonably well: Recently $22 a share, it was trading at just above book value and around 8.5 times estimated 1990 earnings.

"People say you can't make money in the savings and loan business," Deihl says. "That's bloody nonsense. We do it because we make high-volume, low-risk investments and we have a low cost of funds." Around 93% of Ahmanson's loan portfolio is secured by residential real estate; more than 80% of his loans are on single-family homes.

Besides Home Savings, with 333 branches in 9 states, Ahmanson owns 102 mortgage lending offices in 17 states, and the Bowery Savings Bank, with 25 branches in New York. To broaden that base, it recently bought

The Hollywood Branch of Home Savings of America
Designed to look like it'll last for another 100 years.



H.F. Ahmanson & Co. Chief Executive Richard Deihl Mark Richards/Sipa

Making big money by sticking with Depression-era lending standards.

the $1.6 billion (assets) Bayside, N.Y.-based Home Savings Bank of New York, with 13 branches.

Since the Bowery acquisition, the New York metropolitan area has been Ahmanson's largest source of deposits outside California. Even so, nearly 80% of Ahmanson's lending business is still in California.

The state's housing market has gone soft. But Deihl believes prices will hold up simply because demand continues to exceed supply, and environmental extremists and no-growthers will keep it that way.

"That's not to say the Beverly Hills mansion that sold last year for $14 million to a sheikh won't sell this year for $7 million to a rock 'n' roll star," he says, quickly adding that luxury housing is not his market anyway. Home's average loan is about $140,000, and demand for houses in the $80,000-to-$160,000 range is brisk in places like Palmdale (FORBES, *July 23*), San Bernardino County and the Sacramento area.

Now 61 years old, Deihl grew up in the Depression. His father ran a modest savings and loan in Pico Rivera, a suburb southeast of downtown Los Angeles. Deihl well remembers his father, like the Jimmy Stewart character in Frank Capra's *It's a Wonderful Life*, reassuring nervous savers that their money was safe not in a strongbox in the vault but invested in their neighbors' homes.

The tiny but strong thrift was gobbled up by none other than Ahmanson in 1959. After joining Home Savings in 1960, Deihl worked his way up from loan officer to Home's chief executive, in 1967.

Deihl has continued to use the kind of lending standards common to his father's era. Last year, for example, Home's average borrower had personal debt service totaling only slightly more than 32% of his income, comfortably below the conservative Fannie Mae and Freddie Mac guidelines of 36%. Ahmanson rarely lends more than 80% of the appraised value of a house, and maintains an in-house staff of appraisers to make sure the numbers are not inflated.

The relative austerity extends to Deihl's personal finances, too. His cash compensation was $725,000 last year (including a $464,000 bonus), healthy but, by industry standards, hardly extravagant. There is no corporate jet. Deihl points to several portraits by Ferdinand Bol hanging on the walls of his 24th-floor downtown office, but hastens to say they are from a 25-year-old collection put together by founder Howard Ahmanson—"and of dubious authenticity."

Howard Ahmanson, who died in 1968, was also responsible for the design of each of Home Savings' trademark branches. With their elaborate mosaic walls and churchlike stained glass windows, they have been described by one astounded critic as a "cross between a Shriners' hall and a mausoleum."

In the land of sunshine and impermanence, the idea, Deihl says, was "to make them look like they've been there for 100 years and will be around for 100 more."

They probably will be. "We're the bad guys today, but we were the white knights 20 or 30 years ago," Deihl says, adding that the business will come back in favor. "It sounds corny, but the guy who owns his house is willing to pay taxes for services because he's got a piece of the community. A renter doesn't have that same relationship."

It was precisely to encourage home ownership that Congress extended federal insurance to the S&Ls so that they could get relatively cheap deposits from small savers. The crookery and bribery and corruption that followed became possible largely because Congress lost sight of this original purpose and started handing out goodies to cronies and big campaign contributors. ■

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WORLD SERIES OF GOLF

The Making of a Legacy

This 29th annual PGA event means more than a roster of champions vying for an impressive purse. It's a historic legacy that not only qualifies winners of the world's top international competitions, but whose corporate sponsors are committed to making charity its biggest beneficiary.

Firestone Country Club
Akron, Ohio
August 23-26, 1990

History in the Making

By Ben Wright

As the NEC World Series of Golf gears up this year, it may well be the biggest in this Akron, Ohio tournament's 29-year history. With some 69 qualifying events over the past 12 months, possibly the largest field ever of international golf professionals will be competing for the $198,000 first prize from a record purse of $1,100,000.

This roster of champions that has earned the right to take on Firestone Country Club's tough South Course follows a time-honored tradition going back to 1962. The Firestone Tire & Rubber Company, then owners of the 500-acre, 54-hole club, agreed to host and provide corporate backing for an event in which the winners of the four majors — Arnold Palmer (Masters and British Open), Jack Nicklaus (U.S. Open), and Gary Player (PGA) — vied for an unprecedented $50,000 first prize. Nicklaus, the young challenger of the trio, walked away with the first of his five World Series of Golf championships, and firmly established the tournament as the event that crowns the champion of international champions.

The four-man format for the World Series of Golf prevailed for another 13 years until 1976, when it was decided to expand the qualifying events to include an ever-widening number of outstanding international players. The first-place check also increased to an amazing $100,000. But of greatest significance was that the winner would now earn a coveted 10-year exemption on the PGA Tour — more valuable, perhaps, than the first-prize money, and granted only to winners of a few major tournaments.

In 1981, Firestone Tire & Rubber Company sold Firestone Country Club to Dallas-based Club Corporation of America, the largest developer and operator of private clubs in the world. Firestone Tire & Rubber Company continued as corporate sponsor of the World Series of Golf, while Club Corporation of America joined on as host sponsor.

NEC Corporation came on as the title sponsor of the NEC World Series of Golf in 1984. This world leader in high-technology has made an ongoing commitment to using the medium of international athletics to foster communication, goodwill and understanding among international contenders and a worldwide viewing audience.

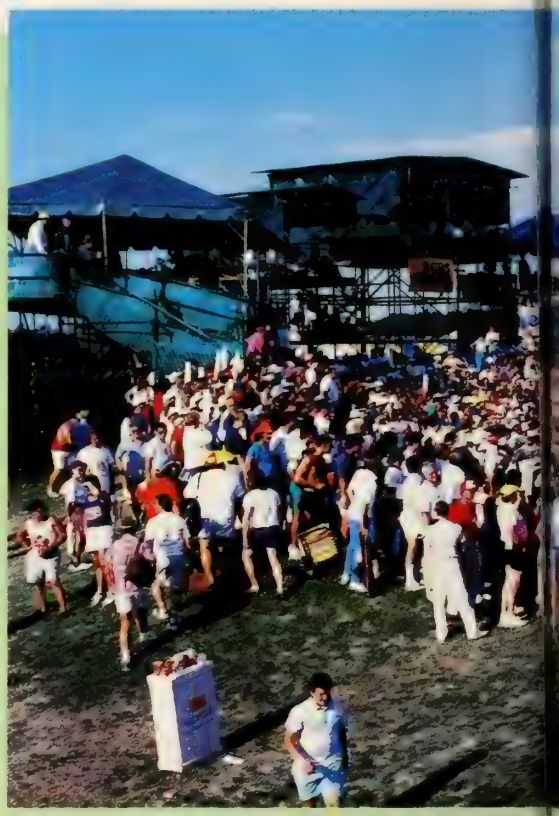
The NEC World Series of Golf stands unique in the PGA Tour as the only event that is owned, sanctioned and officiated by both the PGA Tour (the touring professionals) and PGA of America (club professionals and touring pros). It is also one of the few tournaments that does not have a two-day cut policy; the entire field plays the full four rounds.

An International Arena

That first World Series of Golf in 1962 not only gave wide early exposure to foreign golfers such as Gary Player, Bob Charles, Peter Thomson, Roberto DeVicenzo and Tony Jacklin — but the tournament has also offered opportunities for relatively unknown international players to win, such as Nick Price, in 1983, and Denis Watson, in 1984.

Last year, South African David Frost was the triumphant international champion when he beat out the *creme de la creme* of professional golf at Firestone (about the only missing international celebrity was Spain's Seve Ballesteros). The thrilling final round evolved into a four-man contest among Frost, Ben Crenshaw, Payne Stewart and Greg Norman, with Frost finally emerging victorious after a two-hole playoff with Crenshaw.

The NEC World Series of Golf has further embraced the international golf community with its impressive Opening Ceremony held on Tuesday of tournament week. Each contender is led to the first tee of the South Course, where both the executive committees and a gallery of spectators await, then formally introduced. Welcoming speeches are made by heads of the PGA Tour, the PGA of America and others. Countries that have a qualifying event champion present for the NEC World Series of Golf are recognized.



At last year's NEC World Series of Golf, $17.5 million was channeled into the Akron local economy as more than 100,000 spectators converged on Firestone Country Club's challenging South Course. South African David Frost (top, right) outlasted Ben Crenshaw (inset, center) in a tense two-hole playoff after both shot 276, four under par. Payne Stewart (right) was in the fray until he drove into a fairway bunker at 18 -- needing a birdie to tie -- and made a bogey, placing him in the No. 3 slot.

Ben Wright is the renowned journalist and sports commentator for CBS sports.

Photographs by Bridgestone Firestone

NEC, Firestone, Golf and Akron: A Symbiotic Relationship

Since the Jaycees first approached Firestone Tire & Rubber Company about hosting the Rubber City Open in 1954, Firestone Country Club has become the most televised golf course in the world while hosting over 50 tournaments and more than 130 televised golf matches.

When NEC Corporation joined the PGA Tour, the PGA of America and the Akron Golf Charities as title sponsor of the NEC World Series of Golf, it was making more than a commitment to showcasing the world's top golf professionals at Firestone.

It was adhering to the tenet that the success of a tournament is also measured greatly by its generous contributions to major charities, which in turn put the money to use in numerous projects of value to the community.

Photo by Katz

World Series of Golf Past Winners

1962 — Jack Nicklaus	$50,000	
1963 — Jack Nicklaus	$50,000	
1964 — Tony Lema	$50,000	
1965 — Gary Player	$50,000	
1966 — Gene Littler	$50,000	
1967 — Jack Nicklaus	$50,000	
1968 — Gary Player	$50,000	
1969 — Orville Moody	$50,000	
1970 — Jack Nicklaus	$50,000	
1971 — Charles Coody	$50,000	
1972 — Gary Player	$50,000	
1973 — Tom Weiskopf	$50,000	
1974 — Lee Trevino	$50,000	
1975 — Tom Watson	$50,000	
1976 — Jack Nicklaus	$100,000	
1977 — Lanny Wadkins	$100,000	
1978 — Gil Morgan	$100,000	
1979 — Lon Hinkle	$100,000	
1980 — Tom Watson	$100,000	
1981 — Bill Rogers	$100,000	
1982 — Craig Stadler	$100,000	
1983 — Nick Price	$100,000	
1984 * — Denis Watson	$126,000	
1985 * — Roger Maltbie	$126,000	
1986 * — Dan Pohl	$126,000	
1987 * — Curtis Strange	$144,000	
1988 * — Mike Reid	$162,000	
1989 * — David Frost	$180,000	

* Sponsored by NEC

Making the Commitment Work

Tales of the NEC World Series of Golf

The excitement of pitting world champion against world champion is never more evident than in reviewing the annals of the NEC World Series of Golf:

• In the very first tournament in 1962, the three best golfers in the world — Arnold Palmer, Jack Nicklaus and Gary Player — qualified. All three broke par on a course that seldom allowed it. Nicklaus won the event with a spectacular five-under par 66-69-135.

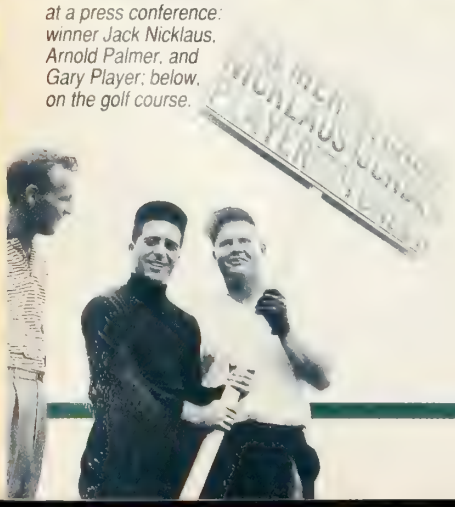
He won it again in 1963 with a 70-70-140, and again in 1967, 1970 and 1976. His incredible record as a professional at Firestone spans 30-plus events beginning with the American Golf Classic in 1961.

• In 1964, "Champagne Tony" Lema won by five strokes (the largest margin of victory in the old four-man format) over a field that included Bobby Nichols, who later became the Firestone Country Club pro. He treated all the press to champagne.

• The 1974 World Series of Golf made history as Gary Player and Lee Trevino deadlocked for five extra holes before darkness postponed the playoff. The following day, they went another two extra holes before Trevino won with a par to Player's bogey.

• Tom Watson was the first man in the history of golf to earn over $500,000 in a year when he won the World Series of Golf in 1980.

The 1962 contenders, at a press conference: winner Jack Nicklaus, Arnold Palmer, and Gary Player; below, on the golf course.



NEC: Global Goodwill, Corporate Ideals Through Golf

NEC's commitment to promoting worldwide understanding through sports came to fruition even before its involvement with the NEC World Series of Golf in 1984, beginning with sponsorship of the international women's team tennis Federation Cup in 1980 and the international team tennis Davis Cup in 1981.

That commitment to strengthening the bonds of friendship and mutual understanding through common experiences — by sponsoring diverse cultural/charitable endeavors from symphony orchestra series to golf tournaments — reflec the corporate ideals and philosophies of NEC top management, worldwide.

"Is any tournament on the PGA Tour equal challenging as the NEC World Series of Golf Precisely because the best players rise challenges, the world's outstanding golfer find their way to Akron every summer," say Tadahiro Sekimoto, President, NEC Corporatio "For almost three decades, the best of the be have been fascinating fans with powerfu and passionate plays on Firestone's famou South Course.

"Naturally, NEC is more than proud to sponso

Sponsors Benefit Charity

"The NEC World Series of Golf has made a lasting impact on the Greater Akron community," says Michael J. Connor, president of Akron Golf Charities, Inc., the volunteer organization that supports the annual tournament. "Much of the success is the result of the tremendous cooperation we receive from our title sponsor, NEC Corporation; our corporate sponsor, Bridgestone/Firestone, Inc.; and our hosts, Club Corporation of America and the Firestone Country Club."

Their combined financial support this year will result in the donation of more than $450,000 to the needy of the Greater Akron area by giving to projects funded by Akron Golf Charities.

The four principal beneficiaries include the Akron Jaycee Foundation, the Children's Hospital Medical Center of Akron, the Beacon Journal Charity Fund, and the Akron Regional Development Board (the economic development arm for educational funding in Akron).

"For one week each year, the NEC World Series of Golf provides great entertainment for the thousands of fans who see the tournament in person, and the millions around the world who watch on television," says Connor. "But the most gratifying result to Akron Golf Charities is that area people are benefiting from the tournament every day of the year."

Contributions made to Children's Hospital Medical Center of Akron (which is celebrating its 100th anniversary) help the more than 160,000 patients seen there each year.

The Economic Impact on Akron

Not only does the NEC World Series of Golf raise substantial funds for charity, but it also has a tremendous impact on the greater Akron community and Northeastern Ohio. Last year, $17.5 million flowed into the local economy, with more than 100,000 spectators converging on the city.

As Paul Livick, Vice President of the Akron Regional Development Board, points out, these figures do not reflect the nearly 1,000 dedicated volunteers who buy their own uniforms, tickets, food and lodging — with all proceeds going to charity.

1990 Ambassador of Golf: Barbara Nicklaus

When Barbara Nicklaus— wife of golf champion Jack Nicklaus — is honored on Wednesday, August 22 as the 1990 Ambassador of Golf, she joins the ranks of past honorees Bing Crosby, Bob Hope, Dinah Shore, Byron Nelson, Gerald Ford, Chi Chi Rodriguez, Gene Sarazen, Joe Dey and Frank Chirkinian.

Barbara Nicklaus has labored tirelessly in raising millions of dollars for charity through her personal involvement in golf-related events. She has worked in many areas of the Memorial Tournament in Columbus, Ohio, benefiting Children's Hospital of Columbus and Dispatch Charities, Inc., and has helped raise an estimated half million dollars in four years for the Fellowship of Christian Athletes International Pro-Am.

She is also honorary chairman of the American Cancer Society's Babe Zaharias Tournament in Columbus, which raised close to $200,000 each of the last two years.

"When Jack and I were first married, I thought that if we were ever in a position to help charities, expecially those devoted to helping children, we would do as much as we could," says Barbara. "When you raise a family and see how precious children are, you realize that they are the future of the world. I find so much enjoyment in working with charities, just like those who work so hard here to raise money for Akron charities.

"Some ask me where I find the time. No matter how trite the saying might be, I find that if something is important to you like the charities are to me, you can always find time to help."

s prestigious event. And we are always preciative of PGA of America, the PGA Tour, d the many volunteers who make the series n smoothly," he adds.

"International sports do more than bring ferent people from various countries together. cause everyone is playing by the same rules d for the same goals, important experiences e shared – shared, we might add, by the llions of fans who follow the series on TV, dio and in the newspapers.

"Sharing important experiences and ormation is what NEC products are really all out. So sponsoring international sports events is quite congruous with our goals of improving the quality of life for everyone."

As a world leader in the computer, communications and electronics fields, NEC Corporation (with U.S. subsidiary companies employing some 8,000 people) has integrated on-site application of its state-of-the-art products, utilizing a full spectrum of telecommunications, computer and electronic equipment. All these products — from facsimile machines for the international press corps to the cellular phones for tournament and emergency staff — contribute to the smooth operations of the NEC World Series of Golf.

Making it Bigger and Better

Meeting the Event's Future Needs

With the increasing popularity of the NEC World Series of Golf (and the $20 billion golf industry itself enjoying its third big surge of growth since before the Depression), Firestone Country Club's owner, Club Corporation of America, the largest developer and operator of private clubs in the world, is continuing to improve the facilities on an ongoing basis to better host this annual tournament.

In 1986, Club Corporation of America rebuilt the greens on the South Course. In 1988, the practice area was completely renovated and is acknowledged as one of the finest on the PGA Tour. In 1989, they refurbished all the bunkers on the South Course in preparation for this year's tournament.

Also last year, in response to a dramatic growth in Firestone Country Club membership, they took unimproved acreage purchased by Harvey S. Firestone some 60 years ago and developed Firestone's new West Course, expanding the club into a 54-hole facility.

Since then, gallery mounding was increased for better viewing by a larger number of spectators. Hospitality centers have been added. Additional guest rooms have been completed (with more rooms to be added next year), and the men's locker area has been totally renovated.

Other improvements next year include the renovation and expansion of the grill, dining room, kitchens, Champions Room, entry way and trophy display area.

Negotiating The Monster and Other Tough Holes

They call it, appropriately, The Monster. It's the South Course's indomitable par-5, 625-yard 16th hole, and it's undeniably the do-or-die point for many a champion player.

Few have conquered The Monster, but 1979 World Series of Golf champion Lon Hinkle pulled it off that year in one of the most extraordinary shots in golfing history — and certainly the most outstanding shot of his lifetime.

Hinkle found himself stuck in jail in the trees as he approached the 16th hole, with sure defeat staring him in the face. Taking a mad gamble and his 6 iron, Hinkle deliberately hit the ball hard and low, skipping the ball across the water — not once, but twice — to save the par during the second round. It was the shot that ultimately won him the tournament. Hinkle claimed "any good player can make a ball skip across the water" and modestly attributed his success to "a little backspin."

This year, players in the Pro-Am event will have an opportunity to win something new -- a $10,000 prize for charity to the one who makes an eagle on The Monster -- providing a real incentive to tackle this tricky hole with tenacity!

Lest anyone think the rest of the South Course is a piece of cake, it should be noted that in a list compiled by the PGA Tour, two of the ten toughest holes are at Firestone — both par fours. The fourth hole ranks the third most difficult and the ninth is the ninth toughest. Average scores on these holes (shot by pros during the 1989 NEC World Series of Golf) was 4.452 at the fourth, and 4.418 on the ninth.

Club Corporation of America: Growing with Golf

In 1957, as post-war families started watching golf on television during the sport's second growth spurt since before the Depression, Robert H. Dedman, Sr., Club Corporation of America (CCA) founder, Chairman of the Board and Chief Executive Officer, was turning some undeveloped North Dallas land into a country club named Brookhaven. That club has since mushroomed to 54 holes of golf, 41 tennis courts, 10 racquetball courts, five pools and a fitness center, and was the beginning of Club Corporation of America's phenomenal growth track. CCA now serves a network of over 400,000 members in more than 200 Associate Clubs around the world.

Firestone Country Club, as host of the NEC World Series of Golf, is one of nine tour events on ClubCorp (the $600 million parent company and one of America's top 100 private companies) courses, which include such familiar names as Pinehurst, Inverrary and Barton Creek, host of the Senior Legends in Austin, Texas.

"The growth and health of CCA can be largely attributed to one of our basic operating principles: 'The Member is King'," says Bob Johnson, President of CCA. "Each of the clubs managed by CCA is unique, and our goal as managers is to be sensitive to a club's specific nature while adding genuine value to it -- in order to regularly surprise our members by exceeding their expectations."

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THE WORLD AS WE SEE IT.

On the eighth day, some say, golf was created.

And it was good.

But those faithful to the game wanted more than eighteen holes. So we created ClubCorp and a whole new perspective on the world of golf was born.

And it was excellent.

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This tournament of champions reflects our commitment to excellence. You can see it in our products. In our people and in our sponsorship of international sports events of distinction.

The NEC World Series of Golf. It's a celebration of the best on the links, brought to you by the best at linking computers and communications.

WATCH LIVE TELEVISION COVERAGE OF THE NEC WORLD SERIES OF GOLF ON USA NETWORK, AUGUST 23 & 24 AND CBS, AUGUST 25 & 26.

NEC

The Larger Context

The left gleefully cites Kevin Phillips as a conservative who damns Reaganism. Phillips is as conservative as Jesse Jackson—and his facts are wrong.

A HANGING JUDGE

By Michael Novak

Kevin Phillips, a self-described conservative, has delighted the "class warfare" left with a nasty attack on Reagan in a new book, *The Politics of Rich and Poor.* The left loves conservatives who hate.

Phillips wants a knightly Democrat to saddle up and rescue the nation from Republicans, whose whole raison d'être, he says, is to concentrate wealth. He regrets that the best Democrat he can find so far is Jesse Jackson.

Phillips claims to abhor plutocracy. He also claims to be a populist. However, he seems to know as little about populism as about our people's resistance to envy.

Two distinctive characteristics of populism in America, according to historian Richard Hofstadter, are its "paranoid style" and its passionate envy. Phillips imagines that the American people are burning with envy. Believing this, populists usually lose. Envy doesn't inspire.

Phillips' vision of American history is that the "concentration of wealth was the fulcrum on which the most basic political questions pivoted, a dividing line deeper than region, race or sex." And that "the distribution of American wealth has depended significantly on *who controlled the federal government, for what policies, and in behalf of which constituencies.*" (His italics.) Phrases such as "Darwinism," "natural selection," "the survival of the fittest" and "class war" occur scores of times in his 200 pages.

Phillips harks back to the days of Richard Nixon, whom he honors as a "cloth-coat" Republican, but is frantic to destroy the reputation of the Reagan Administration. He was sad in 1988 that "few orators or demagogues had [yet] begun blaming the rich." He sees the 1990s as tinder waiting to explode.

Phillips' juiciest quotes come from leftist critics of Reaganomics throughout the 1980s—Jim Hightower, Lester Thurow, Robert Kuttner, etc. Phillips never greets anti-Reagan tirades with skepticism or demands an objective look at all the relevant numbers. He is a hanging judge.

Phillips constructs three arguments, supported by three rickety tables to which he keeps turning:

1. The income gap dividing the top fifth of the population from the lowest fifth is greater in the U.S. than in seven other Western industrialized nations. If you check the real source of these numbers in the World Bank annual reports (not the *Los Angeles Times,* which Phillips cites), you will find a printed caution: These figures are from different years between 1978 and 1980 (before Reagan) and are derived from different methods of measurement. If they were not highly unreliable, they would indict Nixon and Democrats.

Worse still, Phillips should not compare the U.S. with small, ethnically homogeneous nations such as Sweden, Denmark and the Netherlands but with continental Europe as a whole, from Portugal, Spain and Greece northward. That continental spread would more closely approximate U.S. ethnic and geographical diversity. After all, inequality in Minnesota is about the same as in Sweden.

2. Inequality between these two income quintiles in the U.S. is growing. Here Phillips overlooks two absolutely crucial points: The data he uses are pretax (not affected by tax cuts), and they exclude all noncash redistributions designed to help the poor. Moreover, he fails to note that the characteristics of those in the bottom quintile have been changing since 1960. Most are now female householders, either elderly or, if young, mostly unemployed. In the top fifth most householders are highly educated and earn professional salaries: Increasingly, their households double these advantages by having two (or even three) incomes. Such demographic changes are deeper than politics.

Moreover, from 1981 to 1988 an upward push in incomes raised cutoff points in each quintile (in constant dollars). True, the share received by the bottom fifth went down, but its cutoff point rose from $14,209 to $15,102.

3. The share of wealth held by the wealthiest 0.5% of households rose sharply between 1965 and 1983. Phillips here overlooks a key fact. The Reagan tax cuts didn't take effect until after the cited study. Second, he misreports that his chart stems from "data furnished by the Federal Reserve Board." Actually, the professor from Michigan commissioned to do the study by the Joint Economic Committee merely sampled Federal Reserve data. After having made a $1 trillion error in the committee's first published report, which had to be withdrawn ("We handle billions daily," said one congressman, "but talking trillions is real money"), in their corrected version the authors show no significant statistical difference between the two major studies, 1965 (25.4%) and 1983 (26.9%).

Kevin Phillips huffs and puffs, trying to spread hate of the rich. He is neither a convincing hater nor a convincing economic Marxist. ■

Philosopher, journalist and ex-U.S. ambassador Michael Novak directs social and political studies at the American Enterprise Institute in Washington, D.C. His book The Spirit of Democratic Capitalism *has been widely translated around the world.*

In the wake of disaster, predators emerge. In the wake of the junk bond debacle, the bondmailers are multiplying and flourishing.

PAY UP . . . OR ELSE

By Matthew Schifrin

YOU DON'T HEAR much about greenmail anymore, but leave it to Wall Street's fertile minds where there's a buck to be made. Now, in the wake of the junk bond collapse, there's bondmail.

Bondmail? It's a by-product of the now great American junk bond binge. People who should have known better bought junk bonds either not understanding or not caring to know that there was no specific collateral behind them. Others used them cynically to play off the interest rate spreads. But junk bonds were merely IOUs from highly leveraged companies whose controlling interests had put in little cash. A dumb deal they were for the investor. Heads, the investors got a few points over the market rate of interest for a few years; tails, they lost much or even most of their money. The risk/reward ratio was heavily stacked against the bondholder. But junk bonds were a fairy tale come true for dealmakers and their Wall Street agents. To collect huge fees, the firms often said deals were sound that they knew were not.

Meet Stanford N. Phelps, 56, owner of a thriving investment business headquartered modestly in Greenwich, Conn. Phelps is reveling in the junk bond mess like a pig in a mudhole. He has brought bondmail to a fine art. He will go into the market, buy a bunch of the distressed bonds and then tell the issuer: Pay up or I'll throw you into bankruptcy, and you'll lose the company. It often works. The folks who control the company give Phelps—and sometimes all the bondholders—a better break. If not, Phelps drags the company into a long and painful bankruptcy. Among the companies that have felt his wrath: MGF Oil Corp., MCorp., SCI Television Inc. and AP Industries Inc.

Recently Phelps filed an involuntary bankruptcy petition against Houston homebuilder General Homes Corp. ($258 million revenues). The company hasn't paid interest on its $140 million in subordinated debt since January 1988, so last February Phelps bought a $2 million stake for about $200,000. Later he informed management that unless he got two seats on the board he would throw the company into bankruptcy. Management balked, so Phelps is pulling the plug.

Stan Phelps isn't the only bondmailer around, but he is becoming one of the most visible. People like him will not lack for opportunities as more junk bond deals collapse.

Bondmail is not new. There have always been a few savvy and secretive players who specialized in buying defaulted bonds and holding out until a settlement is offered that includes a fancy profit for the bondmailer. In the 1940s and 1950s millions were made by players using such tactics on the bonds of bankrupt railroads—threatening to hold up reorganization until their demands were met. In the 1970s bondmailers made huge profits when they bought up the heavily discounted bonds of defaulted real estate investment trusts and forced their bank sponsors to pay settlements of par and better.

In those days, defaults were fairly rare and mostly the result of businesses that went bad. But in the mid-1980s Michael Milken opened the floodgates that poured forth $300 billion in bonds that started life as low-quality and relatively unsecured paper. No surprise, defaults multiplied. Perfectly good businesses simply found themselves unable to earn enough to pay the interest on new, highly leveraged capital structures. After Milken and Drexel Burnham Lambert were forced out of business by the federal government, there was no one to keep order in the junk bond market. Junk bond prices collapsed, giving prospective bondmailers a chance to buy them cheap and demand that managements pay up or else. These were no mere passive institutional holders who could be pushed around. They were and are tough *hombres* like Phelps.

According to the Bond Investors Association, in the first half of this year there were 40 corporate bond defaults amounting to over $11 billion, and over the next 2½ years another $30 billion are likely to default. Phelps and his ilk are no longer alone in the bondmail business. Smelling opportunity, pension funds and other institutions have put

more than $3 billion into so-called vulture funds.

Some are buying defaulted or distressed bonds instead of equity to seek control of companies. The new raiders include George Soros, who bought up a big block of bonds in Sharon Steel—the company milked and bankrupted by the notorious Victor Posner. Soros is seeking control of some of Sharon's assets. Steinhardt Partners and Mutual Shares have formed Japonica Partners, which bought up a majority of the debt of Allegheny International and is seeking to wrest control from management. Robert Bass and Equitable Life's investment partnership, Acadia Partners, and other bondholders recently took control of an ailing aluminum LBO called Easco Corp. Even RJR Nabisco's owners are feeling the heat from creditors. Kohlberg Kravis Roberts recently was forced to put nearly $2 billion in additional equity into the deal and is retiring nearly $7 billion in outstanding debt.

One of the more colorful characters in the bondmail business, Stan Phelps is also one of the toughest and meanest. His usual tactic is to seek to control strategic blocks of bonds, sometimes enough to prevent a management-led restructuring from being carried out. Phelps then says: Change the terms to give my bonds a better deal or I'll tie you up in the courts. Indefinitely.

With so many junk-leveraged deals going bad, the bondholders are taking terrible baths. The folks who did the deal usually come back to them and say, sorry, fellas, we can't pay what we promised, but how about taking, say, 25 cents on the dollar and letting us get on with running the company. Many of the bondholders, feeling helpless, acquiesce. Bondmailers are made of sterner stuff.

Stanford N. Phelps

"There are so many pretty girls out there, I don't know which one to kiss."

It seems to give Stan Phelps great pleasure that many of the bond deals he is involved with were originally the work of Michael Milken. Mention Milken and Phelps starts to rant, barely containing the hatred and anger. Phelps compares Milken and the whole Drexel Burnham crew to gangsters—and worse. "Mikie is personally responsible for $50 billion in S&L losses," exclaims Phelps, raising his voice like an evangelical preacher. The attacks grow more personal as Phelps proceeds to blame Milken and the Drexel crew for being responsible for much of what ails America.

Yet Stanford Phelps is the very mirror image of Michael Milken. Milken represented the new Wall Street, self-made, unhindered by old ideas and old loyalties. Whereas Milken was a Californian from a modest family, Phelps is a member of the old Eastern Establishment.

Born to a father who was a prominent accountant and a mother whose family owned a shoe manufacturing company in Rochester, N.Y., Phelps was educated at Exeter, Yale and Harvard Business School. After getting his M.B.A. in 1960, Phelps headed for Wall Street, which at the time was dominated by men of his background and breeding. Milken was also the son of an accountant, but he grew up in a middle-class neighborhood in the San Fernando Valley and was educated in public schools, the University of California at Berkeley and the Wharton School. The two are roughly a generation apart in age, much more in outlook.

But why the personal animosity? It goes back to their close association 20 years ago.

In September 1970 Phelps was hired by Philadelphia's old-school Drexel Harriman Ripley, the forerunner of Drexel Burnham Lambert. Phelps' job was to build up the firm's bond department in New York. Phelps, then 36, had spent years in the bond business, first at Citibank, later at

a small but distinguished Wall Street house, F.S. Smithers, now defunct.

Phelps moved fast. In the first year, Phelps says, he built up Drexel's bond department to 75 people and increased annual revenues from $500,000 to $8.5 million. Phelps' own compensation was 6% of revenues, making him one of the highest-paid partners at Drexel at the time.

Without question, a good part of the department's success came from trading a list of about 250 out-of-favor bond issues, known as "fallen angels." These bonds were not junk when they were issued but became so when the firms got into trouble—issuers such as Avco, LTV and TWA. Phelps claims he created the list and allowed his salesmen and traders to deal in them. Snorts Phelps, "I set up the junk bond department at Drexel, not Mike Milken."

> Despite the success of Drexel's bond operation, Phelps was fired in mid-1972. The details of his dismissal are murky. Phelps believes Milken may have pushed him out.

Milken's spokespeople refuse to comment. But those who were there confirm that Milken started as a research analyst under Phelps and that the two worked together.

Phelps recalls he first met Milken on a trip to Philadelphia shortly after Phelps joined Drexel. Milken was then a young Wharton student working on a special project in Drexel's back office. "Milken was motivated and had good work habits, so I hired him in five minutes," says Phelps.

Despite the success of Drexel's bond operation, Phelps was fired in mid-1972. The situation surrounding his dismissal is murky. Phelps claims the firing had mostly to do with his compensation, which was resented by others in the firm, and also believes Milken may have had him pushed out so he could take over the department. Whatever the facts, most agree Stan Phelps has held a heavy grudge against Milken for two decades, and that many of Phelps' favorite bondmail targets are former members of Milken's junk bond network.

People who have worked with Milken and Phelps say both are brilliant analysts and have almost identical work habits—working long hours and studying reams of financial documents nightly for ideas. Yet Milken ruled over the junk bond era, and Phelps is waxing rich in its collapse. The mirror image is complete.

After Phelps was fired from Drexel, he worked at six other Wall Street firms, and he admits he was fired from most. Former associates blame his sometimes questionable trading practices. Also, his abrasive nature and stubborn positions have irritated investment banking clients of the firms he worked for. So in 1986 Phelps started his own brokerage firm, S.N. Phelps & Co., with $1 million in capital. Its returns have been spectacular; those who are familiar with Phelps' investments say he rarely earns less than 100% on any deal. As Milken's fortunes waned, Phelps' waxed.

Mind you, Stan Phelps is no philanthropist. Complains Seymour Licht, a Scottsdale, Ariz. investor who was involved in many Phelps forays: "Stan Phelps always winds up with a few more jimmies on his ice cream cone than the rest of us."

Roger Sandler Black Star

Michael Milken

Milken ruled over the junk bond era, Phelps is waxing rich in its collapse. The mirror image is complete.

A case in point is Phelps' investment in SCI, a Denver-based owner of TV stations that defaulted last October and recently refinanced its debt. By mid-November more than 95% of SCI's bondholders were in favor of a management plan that would leave George Gillette, the chairman and 50%-owner of SCI, in control; bondholders were to sacrifice up to 75% on their investments. Phelps, who owned $2.5 million of SCI bonds, wanted a better deal—and got it. He began by filing an involuntary bankruptcy petition against SCI.

This not only threatened SCI's restructuring plan but also put the other bondholders in the odd position of siding with management to fight Phelps in a lawsuit.

But Phelps isn't much interested in popularity. He made two unannounced visits to the Vail, Colo. offices of George Gillette. Phelps shouted at Gillette's secretaries, demanding to see Gillette immediately. Told Gillette was not in, Phelps insisted that he be shown Gillette's office, just to see if it was lavishly furnished or not.

Phelps' bankruptcy petition was dismissed by the court, which upheld the original settlement between the majority of the bondholders and management. Ever the bulldog, Phelps wouldn't give up. He refused to tender his bonds. Thus, while other bondholders meekly accepted their haircut, Phelps ended by getting back interest as well as seeing his bonds go way up in value. He had paid around 20 cents on the dollar for them. The bonds are now worth about 75 cents on the dollar, plus Phelps got an additional 25 cents on the dollar in back interest—a profit of about 400% in a few months. Using such tactics, Phelps has amassed a personal net worth of over $50 million—and his junk bond party is just getting warmed up.

Phelps' conquests include a number of bank-sponsored REITs of the 1970s, Itel Corp., Commonwealth Oil Refining Co., Inc., Campanelli Industries, Inc. and NuCorp Energy Inc. More recently he is targeting Hillsborough Holdings Corp. and San Antonio Savings Association. Already he has forced MCorp and AP Industries into bankruptcy proceedings. Phelps says he plans to do the same with several other of his investments, including General Homes.

In the case of MCorp ($3.5 billion assets), Phelps acquired his bonds in 1989 at around 30 cents on the dollar. He then forced it into bankruptcy. Today MCorp bonds trade at about 69 cents, and Phelps expects to get par plus back interest.

Tangling with Stan Phelps is not a pleasant experience. Listen to Phillip Marcum, former president of MGF Oil: "One day this guy Phelps knocked on our door and said, my people own 100% of your 14.5% bond issue and you have to deal with me. After that it was a four-year nightmare."

Phelps bombarded MGF with lawsuits and charges of fraud and kick-

backs. A year after Phelps came on the scene, MGF's president and founder, R.O. Major, resigned and soon after died of a heart attack, possibly brought on by the company's troubles. Needless to say, MGF was a Milken/Drexel deal.

According to Marcum, Phelps actually owned only 7% of MGF's bonds at the time, but his attempt to "hijack" MGF forced the company into Chapter 11 in 1984. This time, bondholders probably suffered from Phelps' attentions. Worth 15 to 20 cents at the time of the bankruptcy, MGF bonds are now worth less than a penny. Phelps lost money on his bonds, but he was made partially whole with a $750,000 "consulting fee" paid to his firm by the company that ultimately pulled MGF out of bankruptcy.

During the MGF restructuring, Drexel offered Phelps 31 cents on the dollar for his bonds. Phelps stubbornly refused, though his cost was around 15 cents. Grumbles Phelps, "Milken was trying to get me out of the way."

Stephen Weinroth

"Phelps harangues me and my secretary so much that it is becoming laughable," says Weinroth.

With Milken awaiting sentencing, Phelps has switched his attentions to Milken's associates. Recently he has targeted former Drexel banker Stephen Weinroth, now chief executive officer of bankrupt Integrated Resources Inc. Integrated and Phelps hold significant amounts of the bonds of AP Industries, a $200 million auto parts firm.

Here's the story. Integrated owns $21 million of AP's $88 million in outstanding bonds. Phelps, who owns $16 million of the bonds, wanted to buy Integrated's AP bonds so he could get the upper hand in the AP restructuring. But Weinroth won't sell to Phelps.

This is only the latest of Phelps' efforts to get his hands on AP. In late March Phelps forced AP into bankruptcy liquidation after bondholders overwhelmingly rejected a bondmail-type plan he put forth that would have made him chairman and provided liquidating fees to his firm.

Right now the battle is a stalemate. Phelps says he is suing Integrated's directors and Weinroth personally for $550 million, claiming that Weinroth fraudulently sold the bonds to another Drexel client instead of to Phelps. Ever the street fighter despite his patrician upbringing, Phelps wrote nasty letters to Weinroth, with copies to the Securities & Exchange Commission. One letter demands Weinroth disclose information on the six Drexel partnerships Weinroth has invested in, saying that is where Weinroth's "criminal liability is greatest." Now Phelps has bought a few Integrated bonds and is threatening to become a menace in Integrated's bankruptcy proceedings as well.

Weinroth, who has not been implicated in any charges against Drexel or Milken, calls Phelps' actions extortion, saying: "Phelps harangues me and my secretary so much that it is becoming laughable."

So obsessed is Phelps with AP that he made a "business proposal" to officials at Alvarez & Marsal, the bankruptcy advisory firm that is working on both the AP and Integrated restructurings. According to Alvarez & Marsal senior partner Brian Marsal, Phelps essentially offered to drop a lawsuit he had filed against Marsal's firm if Marsal could persuade Weinroth to sell his AP bonds to Phelps. Marsal says he refused.

These days Phelps is expanding his firm as more and more of Milken's junk bond deals become undone. Phelps recently hired four new brokers—three former Drexel employees—to his 15-person firm. "There are so many pretty girls out there, I don't know which one to kiss," says Phelps. He positively beams at the thought of future defaults in the junk bond world.

One deal he is watching hungrily is RJR Nabisco. Even though KKR is refinancing, Phelps says it is not enough. He expects the company to run into serious trouble in 1992.

While Phelps is quick to criticize Milken and his former associates for milking deals, he himself always gets a pound of flesh, and sometimes several pounds. Already as a result of his investing, his firm controls three corporations, "rescued" from bankruptcy. They are Irving, Tex.-based Commonwealth Oil Refining, Atlanta-based Citizens Properties Inc. and Realmark Inc., which was formerly Campanelli Industries. In each, Phelps and his associates get salaries of as much as $150,000 to $250,000 a year per entity, as well as fees for "consulting services." But Phelps' fees are pennies compared with the billions Drexel and Milken took down.

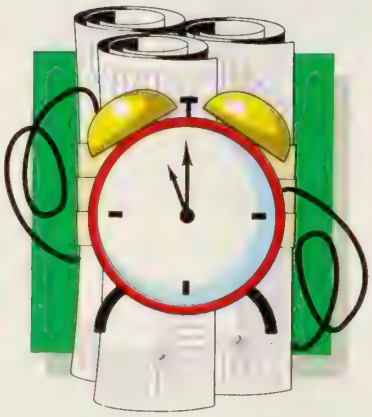
Phelps' three companies have publicly traded stock outstanding, but he effectively has them in captivity, controlling most of the shares. None of them pay dividends. Instead, Phelps uses their retained earnings to make other bankruptcy investments: Realmark used to own LTV bonds; Citizens holds the bonds of First Republic Bank. Sound familiar? It's rather like Milken, who often persuaded clients to use surplus cash from takeover deals to invest in other Drexel deals.

Phelps believes he will end up controlling several large corporations that have failed because of overleverage. How large? Note his interest in RJR. Stan Phelps is a man obsessed, not only with making money, but also with getting back at his former Drexel associates. He often speaks of the latter in terms that are offensive to decent people. His personal vendettas are of little interest to the world, but in helping redress the balance in favor of the world's much abused junk bond holders and against the powerful dealmakers, he is rendering a public service. The junk crowd took on and defeated the old business establishment, and Stan Phelps sometimes sees himself as the avenger. A nice guy? No. But he and people like him are doing useful work in strengthening the hands of hapless junk bond holders who might otherwise be at the mercy of managements who shortchanged them from the beginning. ■

> Phelps' personal vendettas are of little interest to the world, but say this: He is helping redress the balance in favor of the world's much abused junk bond holders.

Junk bombs are junk bonds with a built-in time bomb. Some are already exploding.

TICK, TICK, TICK



Andy Christie

By Jason Zweig and David Stix

HOW DID SO MANY Wall Street firms justify their clients' issuing junk bonds in amounts and at interest rates that the clients' earnings could not cover? We're talking here not about run-of-the-mill junkers but of that special kind of junk bond that either paid no cash interest or paid it in some deferred form.

Isn't that close to fraud, selling bonds when you knew you weren't earning enough profits to pay the interest? No, because all the facts were in the prospectuses and because Wall Street is very good at rationalizing whatever fattens its pocketbook.

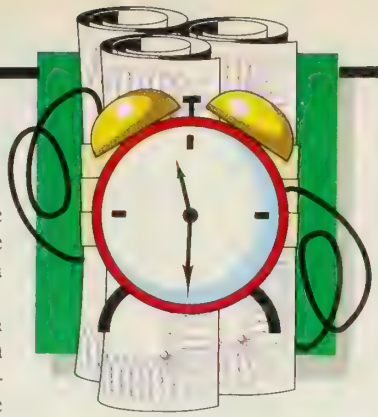
Listen to Joseph Bencivenga, the former head of high-yield research at Drexel Burnham Lambert, who now runs junk research at Salomon Brothers. He says that the aim of issuing bonds beyond a company's ability to service them was "to finance companies so they could grow into their capital structure." Is that a little like borrowing money for a trip to the racetrack in the hope of both paying the creditor and making the debtor rich? It is.

There are three main kinds of these "trigger" bonds:

Kaboom!

With the junk bond craze at its height a few years ago, scores of companies giddily issued "trigger" bonds. Before long, these bonds could detonate. At a predetermined date between now and 1996, the 50 companies listed here will likely be forced to come up with a load of cash to meet the bonds' sharply higher service costs. In some cases, cash interest payments could take up more than 100% of cash flow. Bondholders beware.

Company	Trigger event[1]	Issue size[2] ($mil)	Trigger date yr/mo/date	Current cash flow ($mil)[3 4]	—Annual cash interest ($mil)— current, on all debt[4]	increase as of trigger date	total as of trigger date[5]	Debt service coverage[6] %
Acadia Markets	PIK: 13.06	85.0	94/8/15	18.9	17.0	11.1	28.1	149
Adams-Russell	Split: 0/16¾	272.5	92/12/30	40.0	39.0	45.7	84.7	211
Adelphia Communications	Split: 0/16½	169.0	92/9/15	140.8	129.0	27.9	156.9	111
Air & Water Technologies	Split: 7½/13¾	84.0	91/4/15	49.1	31.3	5.3	36.6	75
Alco Health	PIK: 18½	42.7	94/10/31	57.6	55.7	7.9	63.6	110
American Standard	Split: 0/14¼	545.9	93/6/30	443.1	219.9	77.8	297.7	67
Ann Taylor	Split: 0/14⅜	167.9	94/1/15	73.4	35.0	24.1	59.1	80
Burlington Holdings	Split: 0/16	271.7	93/10/1	319.9	160.0	43.5	260.8	81
Burlington Holdings	Split: 0/16	358.0	93/10/1	319.9	160.0	57.3	260.8	81
Cablevision Systems	Reset: 12¼/14	200.0	91/5/15	230.0	185.0	3.5	188.5	82



There are payment-in-kind bonds, which pay interest in the form of more bonds in the early years and then—in the sweet bye-and-bye—switch to large cash payments.

There are split-coupon bonds, which generally pay little or no interest for a few years and then promise—promise—to pay extremely high interest in the bond's later years.

There are resets, which pay relatively low interest rates in the early years and then are reset on a predetermined date, usually to a substantially higher rate, depending on market conditions.

Did it make sense to buy bonds issued on this basis? Recalls Wayne Josephson, a high-yield analyst at Fitch Investors Service: "The herd instinct took over the whole investment banking community once again, and everyone seemed to buy the same line." Those whom the gods would destroy they first make mad.

In December 1988, at the tail end of the junk-issuing frenzy, the average yield on junk with cash coupons was around 12.90%, versus 14.85% for junk with deferred coupons—a yield spread of only 190 basis points. As of last month, the yield on cash-paying junk had crept up to 15.25%, but deferred paper was trading at a vertiginous yield of 19.10%.

FORBES has identified roughly 200 companies that issued trigger bonds in the late 1980s. That's some $40 billion of junk debt. In 1991 and 1993, two peak years, some $10 billion worth of bonds must begin paying cash interest or be reset to higher rates.

Warns Josephson of Fitch Investors Service, "Any slow-

Company	Trigger event[1]	Issue size[2] ($mil)	Trigger date yr/mo/date	Current cash flow ($mil)[3,4]	—Annual cash interest ($mil)— current, on all debt[4]	increase as of trigger date	total as of trigger date[5]	Debt service coverage[6] %
Calmar Spraying Systems	Split: 0/14	150.0	92/2/15	38.6	15.0	21.0	36.0	93
Charter Medical	Split: 0/13	240.0	91/8/16	281.6	127.0	31.2	158.2	56
Charter Medical	PIK: 15.85	243.3	95/8/15	281.6	127.0	38.6	196.8	70
Cherokee Group	Reset: 9/17½	117.5	92/5/1	34.4	17.5	10.0	27.5	80
Club Car	Split: 10/14½	76.0	92/4/1	15.0	9.0	3.4	12.4	83
Colt Holdings	Split: 0/14¾	920.0	93/7/15	320.5	135.0	135.7	270.7	85
Cullum Co	Split: 0/16	260.0	93/12/1	75.2	30.4	41.6	72.0	94
Dr Pepper/Seven-Up	Split: 0/15½	541.2	93/4/1	199.1	76.2	83.9	160.1	80
Duracell Holdings	Split: 0/13⅛	670.0	93/9/15	287.0	147.0	87.9	234.9	82
Duff & Phelps Funding	PIK: 15	75.0	92/3/1	14.3	5.0	11.2	16.3	113
Eckerd Holdings	Split: 0/13	345.2	91/5/1	230.5	115.7	44.9	160.6	70
Edgcomb Metals	Split: 9/15	138.5	94/8/15	28.6	19.8	8.3	28.1	98
Envirodyne Industries	Split: 0/14½	250.0	94/8/1	106.8	80.0	36.3	116.3	108
EPIC Healthcare	PIK: 11	50.0	95/9/30	93.0	50.0	5.5	55.5	60
Fort Howard	PIK: 14⅝	446.5	94/11/1	458.0	329.0	182.1	511.1	112
Fort Howard	Split: 0/14⅛	827.0	94/11/1	458.0	329.0	182.1	511.1	112
Gaylord Container	Split: 0/16½	125.8	92/5/1	121.0	65.0	20.8	85.8	70
Harcourt Brace Jovanovich	PIK: 14¾	357.0	92/9/15	102.3	247.5	53.0	353.3	345
Harcourt Brace Jovanovich	Split: 0/14¾	358.0	92/9/15	102.3	247.5	52.8	353.3	345
Healthtrust	Split: 0/16½	365.0	91/12/1	274.7	123.3	60.2	196.3	72
Healthtrust	Split: 0/11.6	110.0	91/12/1	274.7	123.3	12.8	196.3	72
Hospital Corp of America	Split: 0/15¾	444.0	91/8/1	903.0	475.0	69.9	545.0	60
Joy Technologies	Reset: 13/15½	120.0	91/11/15	51.1	50.4	3	53.4	104
JPS Textile Group	Split: 0/18¾	160.0	92/6/1	76.9	69.2	30	99.2	129
Kroger	Split: 0/15½	1,375.3	93/10/15	895.8	460.0	213.1	673.0	75

[1]For splits and resets, the number before the slash is the current interest rate. On splits, the number after the slash is rate after trigger date; on resets the number after the slash is the maximum possible interest rate. Maximum rate is used in all subsequent calculations. [2]Amount currently outstanding; many will be larger by trigger date. [3]Earnings before tax, interest, dividends, depreciation and amortization. [4]For most recent 12-month period available. [5]Projected, by adding increase in annual interest payments after trigger date to current annual cash interest payments. [6]Percent of cash flow needed to cover projected annual interest after trigger date. [7]Assuming Viacom reset takes place at 11½%. NM: Not meaningful.

Sources: Donaldson, Lufkin & Jenrette; Fitch Investors Service; IDD Information Services; Indepth Data; Salomon Brothers; Securities Data Corp

down in the economy could compound the effect of the triggers. It will have a double-whammy effect on the marginal companies that are just making it now."

Thanks in good part to the profit-seeking urges of the bondmailers, the bondholders may not be as helpless as some managements seemed to expect *(see story, p. 74)*. Gregory Smith, president of Indepth Data, an Oklahoma City-based junk bond research firm, helped compile the table accompanying this story. Says Smith: "This is both a watch list and an opportunity list. A whole new breed of investor will find opportunity in these failures. It won't be the old junk bond players. It will be people who think differently, who really look under the hood to see who holds the bonds and who has the power in the capital structure."

RJR Nabisco reset bonds exploded and bondholders screamed. The equity owners, Kohlberg Kravis Roberts, had to put in a lot of additional capital, providing extra protection. The bonds' prices recovered smartly. In danger there is opportunity. ■

Kaboom!

Company	Trigger event[1]	Issue size[2] ($mil)	Trigger date yr/mo/date	Current cash flow ($mil)[3,4]	—Annual cash interest ($mil)— current, on all debt[4]	increase as of trigger date	total as of trigger date[5]	Debt service coverage[6] %
Macy Merger	Split: 0/16	881.1	93/7/15	730.9	589.8	141.0	739.9	101
Malrite Communications	Split: 0/15¼	167.0	94/2/15	18.0	12.0	25.5	37.5	208
Maryland Cable	Split: 0/15⅜	162.4	93/11/15	15.7	9.6	25.0	34.6	220
Morse Shoe	Split: 8¼/16	221.0	91/3/15	47.9	32.7	17.1	49.8	104
MS/Essex Holdings	Split: 0/16	342.0	95/11/15	110.7	35.9	54.7	90.6	82
Musicland Stores	Split: 12/14¾	53.5	91/9/30	85.1	42.7	1.5	44.2	52
National Gypsum	Split: 0/15½	572.7	91/7/1	126.1	77.5	88.8	166.3	132
Owens-Illinois	Split: 0/15	400.0	93/6/1	719.5	418.5	60.0	576.9	80
Owens-Illinois	PIK: 14½	678.6	93/6/1	719.5	418.5	98.4	576.9	80
PA Holdings	Reset: 12¾/15	235.0	90/8/15	157.5	121.0	5.3	126.3	80
PA Holdings	PIK: 13¼	120.0	93/8/15	157.5	121.0	15.9	142.2	90
Panhandle Eastern	Reset: 11⅝/14⅛	300.0	91/8/1	694.4	448.8	7.5	456.3	66
Playtex Apparel	Split: 9/14	182.0	94/4/1	79.3	40.0	9.1	49.1	62
Reliance Electric	Split: 0/14	393.0	92/4/1	231.0	50.0	55.0	105.0	45
SSC Holdings	Reset: 12½/15	125.0	91/7/15	241.8	132.5	3.1	135.6	56
Supermarkets General	Split: 0/13⅛	182.6	92/10/5	326.5	180.0	24.0	204.0	62
Supermarkets General	PIK: 12⅝	320.0	92/12/15	326.5	180.4	40.4	244.8	75
Tonka	PIK: 17¼	120.1	92/12/1	153.0	77.0	20.7	97.7	64
Triad Systems	Reset: 14/16½	80.0	92/8/1	29.1	11.0	2.0	13.0	45
TW Services	Split: 0/17	712.1	94/11/1	396.3	174.5	121.1	295.6	75
TWA	PIK: 12	391.3	90/9/30	11.4	366.2	47.0	413.2	NM
TWA	PIK: 12	250.7	90/10/24	11.4	366.2	30.1	443.4	NM
USG	PIK: 16	337.7	93/7/16	416.0	251.0	54.0	305.0	73
Viacom	Split: 0/14¾	399.5	91/6/15	341.9	169.1	58.9	228.0	67
Viacom	Reset: 11½/no maximum	193.0	91/7/15	341.9	169.1	—	228.0	67[7]
Viacom	PIK: 15½	340.3	93/6/30	341.9	169.1	52.8	280.8	82

[1]For splits and resets, the number before the slash is the current interest rate. On splits, the number after the slash is rate after trigger date; on resets the number after the slash is the maximum possible interest rate. Maximum rate is used in all subsequent calculations. [2]Amount currently outstanding; many will be larger by trigger date. [3]Earnings before tax, interest, dividends, depreciation and amortization. [4]For most recent 12-month period available. [5]Projected, by adding increase in annual interest payments after trigger date to current annual cash interest payments. [6]Percent of cash flow needed to cover projected annual interest after trigger date. [7]Assuming Viacom reset takes place at 11½%. NM: Not meaningful.

Sources: Donaldson, Lufkin & Jenrette; Fitch Investors Service; IDD Information Services; Indepth Data; Salomon Brothers; Securities Data Corp.

Tenneco: where we're going.

A company's long range plan should have specific financial objectives. These are Tenneco's. One: earn a 20 percent or higher return on shareholders' equity. Two: generate cash each year in excess of our requirements for capital investment, working capital and dividends. Three: increase our earnings per share by at least 15 percent each year. Can we do it? Just watch. We're a diversified industrial company that knows where it's going. To learn more, call 1-800-345-9027.

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You have to dri

Without doubt, the Honda Accord is a great automobile. The experts have said that for years. It has become the benchmark for other auto makers. Its record is truly impressive.

Incredibly, then, this year we have redesigned the Accord. And our new car will set new standards.

The new Honda Accord is bigger and better than ever before. There is more room inside, the ride is more comfortable and the car is much more responsive under all driving conditions.

And there is its unique beauty.

Flat surfaces and contours blend harmoniously while all the lines flow smoothly. The front of the car rounds to the wind and stylish new headlights mount flush to the airflow. While the rear is high and designed according to automotive aerodynamic principle.

You'll see a substantial increase in glass area which adds to your comfort and visibility. You'll find comfortable space inside the car between yourself and other passengers.

Because the new Honda Accord has a longer wheelbase and is more solid, we redesigned the race-proven, 4-wheel double wishbone suspension system. The ride and handling are immensely improved. There is a new speed sensitive, variable-assist power steering. It progressively adjusts the amount of assistance for improved road feel for the driver. It does this at all speeds.

The body looks almost like it is sculptured from a solid mass of stee Designers concentrated on reducing the number of seams, refining fit an finish and countless other details.

A new method of body building stiffens the car to further improve an quiet the ride.

Once seated in the Accord, you a greeted by a bright, airy environmen that immediately puts you at ease. A controls and instruments are logically placed. Everything falls into your lin of sight and is within your reach. The whole interior seems designed aroun you. It fits. You fit.

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e it to believe it.

The front seats are larger and offer more support. Rear seats contour for better comfort. They are made from one piece of moulded foam.

Door panels and the instrument panel are each moulded from a single piece so there is nothing to rattle. The headliner is built to absorb noise and is recessed for the windshield visors and passenger-assist handles. Everything

olds in nice and flush for a more fitted appearance.

A new ventilation system that is quiet and significantly more efficient ensures your comfort. The controls are large and easy to use.

Under the aggressive looking and low sloping hood is a new and larger fuel-injected engine. It now has more horsepower and torque for improved performance in the ranges you most often drive. Such as getting through city traffic and on the highway.

Imaginative Honda technology makes the new engine run smoothly and quietly. Balance shafts built in the engine cancel the inertial forces that cause other engines to twist and shake. It's amazing.

Other refinements additionally reduce vibration and noise. And help to increase performance.

The durable Honda five-speed manual transmission has also been redesigned. It is stronger and more rigid to match the increased engine power and torque. It's also smoother and quieter.

There's a new Honda four-speed automatic transmission available that is very compact, smooth shifting and efficient. And the transmission has a driver selectable Sport mode with lockup torque converter.

Everything about the new Accord is designed to increase the quality of driving. It is a car attuned to the driver. It makes you more pleasantly aware of the enjoyment of driving.

In this case, driving is believing.

HONDA

The New Accord

Marketing

Edited by Joshua Levine

China's family planning policies have created smaller families and Asia's most notorious brats. H.J. Heinz is quietly cashing in.

Feeding China's "little emperors"

By Patrice Duggan

LET'S SEE NOW: 22 million babies born in China each year. That's almost six times the number born every year in the U.S. Sell baby food over there at 75 cents for a box that will last ten days. Promote it heavily on television. Pretty soon you're talking a potential market of . . . billions!

It's hardly a new idea. Way back during the 1930s Depression, Sinologist Carl Crow suggested that selling goods to China was the solution to U.S. economic woes. Sell but one item to each of the then 400 million Chinese, and the U.S. would be wealthy again. Crow's pie-in-the-sky theory became the butt of marketing jokes for an entire generation.

But more than than 50 years later China has over a billion people, and food giant H.J. Heinz Co. is putting Crow's theory to the test again. With little fanfare in the U.S., Heinz has been manufacturing an instant rice cereal for babies in a small $10 million plant in Guangzhou (formerly Canton), the capital of China's southern Guangdong Province.

The factory, a joint venture begun four years ago with two Chinese partners, is 80% owned by Heinz. Earlier this year, speaking to an audience of local Pittsburgh businessmen, Heinz Senior Vice President Derek Finlay echoed Crow's intoxicated optimism: "Chinese infants . . . add approximately 22 million to their numbers each year. This is equal to six new Irelands or New Zealands every year—the mind boggles!"

As Congress battles over China's most-favored-nation status, Heinz is keeping very quiet about its China operations. But FORBES has learned that Heinz has already become profitable in a country where many companies don't expect to turn a profit for more than a decade. The $15 million in China sales is a mere blip on Heinz' $6 billion in revenues, but the company is already making the same 15% margins it does in the U.S., where it has a 14% share of the $925 million baby food market. Operating at capac-

H.J. Heinz billboard in Guangzhou, China
Bringing the message to the People's Republic.

Photos by Leong Ka Lai/Woodfin Camp

Happy Heinz consumers heading home
A market equal to six new Irelands or New Zealands every year.

ity in its China operations, the company has already begun looking for a site for a new factory.

Much of the success can be attributed to savvy marketing, heavily weighted toward spiffy television commercials produced by Interpublic in Hong Kong. By U.S. standards, the media costs are virtually zero: For instance, a 30-second commercial in a province like Sichuan, which has a population of 105 million, costs about $200. In New York, by contrast, a city of 8 million people, a prime-time 30-second commercial will cost about $25,000.

The ads picture plump, happy Chinese babies cuddled by pretty mothers. A quick spiel on vitamins and minerals assures viewers of the highest nutrition.

Being a Western product doesn't hurt, either. Says Mun Yee Chan, former vice president of research at Gruntal & Co.: "There is a mystique that the Western product is more nutritious, that it is of higher quality." Every box of Heinz baby food carries its message in both Chinese and English—the English to impress consumers with the product's foreignness. While the TV commercials are in Chinese, Ron Cromie, general manager of J. Walter Thompson China, says it's clear to the Chinese audience, just by the quality of the production, that the ads are foreign.

Heinz, taking a leaf from its U.S. book, does most of its advertising on television; its Chinese competitors stick primarily to newspapers and billboards. With television in over 95% of urban Chinese households—slightly more than in the U.S.—that gives Heinz a big advantage.

Heinz also has demographics going for it. Under China's policy of holding down population growth, couples that limit themselves to one child get salary increases and housing privileges. As a result, the fertility rate of Chinese women has fallen from 4.1% in 1974 to 2% in 1989. Since the policy is more difficult to enforce in rural areas, fertility rates are lowest in urban areas.

Thus China's cities are now filled with only children who are the target of all the love and attention of two parents. So doted upon, these children have come to be known in Asia as "little emperors," demanding, and often receiving, much more than Chinese children of previous generations could have dreamed. Certainly the best in baby food is none too good for these privileged infants.

In this case best means foreign, and while 75 cents for a box of Heinz rice cereal is expensive to a worker bringing home $40 a month, who could begrudge it for little emperors and empresses? "With the one-child policy, almost all of the disposable income of an urban family will go to the one child," says J. Walter Thompson's Cromie. "Food is sacred in China," says Ann Scott Tyson, a journalist and mother of a 14-month-old son living in China. "They're having only one baby and they're desperate to make sure that the baby is getting adequate nutrition."

Then there is the convenience Heinz offers to working couples. The Heinz cereal is precooked and instant, appealing to the 70% of the women who work and who receive only 90 days of maternity leave. The less expensive Chinese product has to be cooked.

This year Heinz will face its first foreign competition in China. Nestlé, an old hand at selling baby food and formula worldwide, just opened a factory near Harbin, capital of the northern province of Heilongjiang (formerly Manchuria). Nestlé's 60%-owned joint venture will produce formula and instant milk powder as well as cereals. Nestlé is planning to market its cereals on television, much the way Heinz does.

Both Heinz and Nestlé were welcomed with open arms by the Chinese government. Unlike some other joint ventures producing for the domestic market, Heinz and Nestlé don't have strict export requirements. (Although Heinz is hoping, at some point, to export tomato paste.) The Chinese were eager to bring in foreign baby food manufacturers, hoping to upgrade infant nutrition. One thing Heinz promised to do was establish a program to study problems of malnutrition in Chinese infants.

Maybe Carl Crow was essentially right, after all. ■

"Software for mahogany dealer doesn't grow on trees."

"I sell exotic hardwoods, so I need software that's pretty unusual. I spent two years trying to find the right thing, without any luck.

"I was about to give up and hire a programmer when I called IBM. In one day, they found what I'd been looking for.

"You know what amazes me most about that? That I hadn't called them sooner."

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So not only can we find software for all types of IBM systems, and virtually any kind of business, we're likely to find you another person who's already using it.

To put IBM's National Solution Center to work for you, call us at 1 800 IBM-6676 ext. 975. We'll arrange for an IBM marketing rep to call you.

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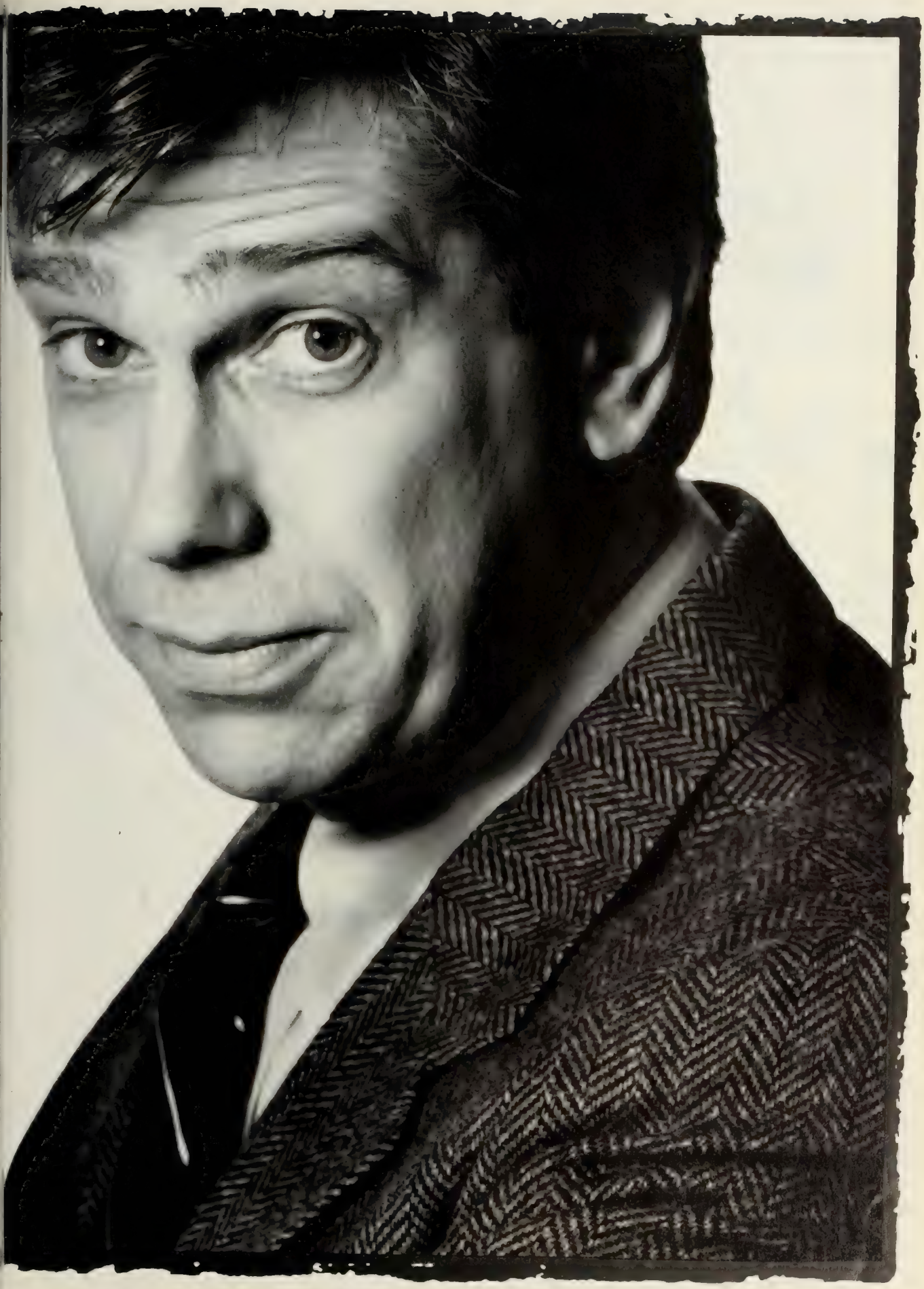


There aren't many glass bottles left in supermarkets. If Constar's Charles Casey has his way, there won't be any.

Casey at the bottling plant

By Rita Koselka

WHEN WAS the last time you bought soft drinks, peanut butter or ketchup in glass bottles? Or sliced your finger on a glass shard or tin can lid protruding unseen from the trash bag?

Plastic bottles are vanquishing glass and cans, and leading the charge is Constar International Inc.'s Chairman Charles Casey. Casey, 63, has spent 40 years in the packaging business, first on the glass side and more recently on the plastics side. The latter is better. "You haven't yet seen even the tip of the iceberg," says Casey of opportunities in plastic packaging. "Probably the only thing we'll leave to the glass industry is the fine wine bottle market."

Based in Chattanooga, Tenn., Constar makes over 3 billion plastic bottles a year, more than anyone else in the U.S. Customers include Coca-Cola, Folger's coffee, Skippy peanut butter. Last year Constar earned $16 million on sales of $542 million. That 3% net margin is quite respectable for the commodity packaging industry. Earnings are up from $10 million in 1985 on sales of $363 million.

Casey is actually on his second career in packaging. He had retired rich in 1985 after selling a glass company of which he was president and a major shareholder. Soon after selling out, he received a call from John Pollock, an old friend and colleague who runs Dorsey Corp., the cargo trailer maker where Casey had formerly worked. Pollock was having no end of trouble with Dorsey's Sewell Plastics unit. Would Casey help him get Sewell's runaway operating costs in line?

Producing plastic bottles is a commodity business: Let costs get just a little out of line, and wave your customers good-bye. After taking stock, Casey teamed up with a young Sewell vice president named Robert Nickels. Together they redesigned Sewell's cost accounting system to determine the exact cost of each prod-

Ann States Saba

Constar International Chairman Charles Casey
"You haven't yet seen even the tip of the iceberg."

uct at each step of the manufacturing process. This gave them immediate feedback on production problems as they arose, and enabled them to quote prices that genuinely covered costs. They also slimmed inventories and introduced computerized production and design capabilities. With the new design tools in place, the company invited customers into the plant to work with engineers and designers to create new bottles that better met their needs.

It's a lean operation. Constar headquarters consists of 18 people. This small staff oversees 3,700 employees in 29 plants, including 5 in Europe and 1 in Canada. The work force is 15% smaller than what it was three years ago, but it produces 40% more bottles. Among other things, the bottles are 30% lighter than they were a decade ago, which makes them cheaper to make.

In 1987 Casey was named chief executive of Dorsey, replacing his old friend Pollock. He sold all of Dorsey's assets, with the exception of Sewell's plastic bottle business, and focused his attention on expanding it. In 1988 Casey rechristened the company Constar International.

Casey has neatly circumvented what could be one of Constar's worst headaches—an emotional backlash from environmentalist consumers—by hooking up with Shrewsbury, N.J.-based Wellman Corp. Wellman is one of the country's largest waste plastics recycling companies. Here in the U.S., Constar purchases a large amount of the used polyethylene bottles Wellman collects; about 25% of Constar's polyethylene for soda bottles is now recycled plastic, and the ratio is rising.

In Europe, PepsiCo and Coca-Cola, two of Constar's largest customers, are investing heavily in anticipation of 1992. Casey wants to be there, too. Constar and Wellman have, within the last year, bought two plants in the U.K., two in the Netherlands and one in France. This makes Constar the largest producer of recyclable polyethylene terephthalate (PET) bottles in Europe, where glass bottles are still abundant and plastic's growth prospects are especially bright. Casey predicts Constar's European sales will climb from $120 million now to $500 million by the end of the decade.

Constar currently accounts for 35% of the U.S. market for beverage containers. It's also making inroads into the food industry: Lighter, unbreakable plastic containers flow more easily down production lines and are more appealing to customers. New technologies will soon allow Constar and others to bottle hot food products like spaghetti sauce without warping the plastic.

With things running smoothly, Casey is thinking about retiring again. He figures the timing is right. He remembers working in the glass container business when the business was in decline. "But this time I'll be getting off before it comes down," he says of plastics. ■

While others have found doing business in Asia to be daunting, Chicago's billionaire Pritzker family has quietly built a substantial and successful Far Eastern empire.

What, no strategic planning department?

By Steve Weiner

THE FEDERAL GOVERNMENT says U.S. companies are not permitted to do business with Vietnam. Yet smack in the middle of Ho Chi Minh City squats the Saigon Floating Hotel, the best accommodations in town. It has 201 air-conditioned rooms, satellite television reception, telephones that work and water you can drink from the tap. Its operator is Southern Pacific Hotel Corp. of Australia, which is owned by Hale Corp. of Hong Kong.

Kevin Horan/Picture Group

But the trail leads back to the U.S.: Hale's stock is controlled by foreign trusts whose main beneficiary is the Pritzker family of Chicago. It is part of a vast and convoluted Pritzker empire—overseen mainly by Jay, 68, and his brother Robert, 64—which includes Hyatt hotels and resorts, 60 Marmon Group manufacturing companies, and a global spread of investments in real estate, lumber, shipping and financial and travel services.

How do the Pritzkers

Paul Meredeth

Jay Pritzker (top) and his brother Robert

"We don't believe in long-range planning . . . things never work out."

Parking is such sweet sorrow.

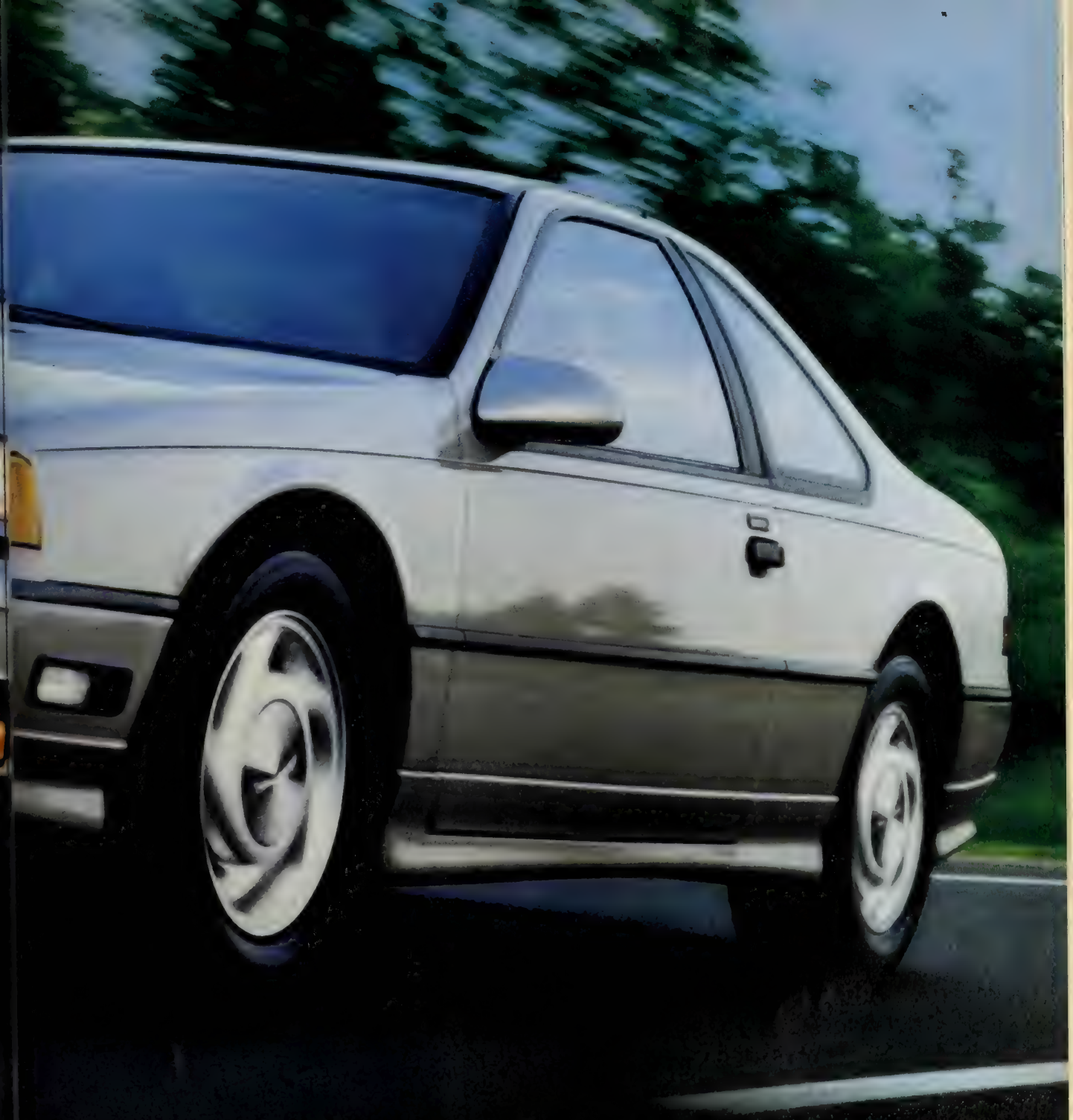
When you're behind the wheel of a Ford Thunderbird SC, even the long way home never seems quite long enough.

The supercharged Thunderbird SC boasts one of the most powerful production engines made in America: a 3.8 liter EFI V-6 that rates a formidable 210 horsepower and 315 foot-pounds of torque.

To complement all that power there's a 5-speed manual overdrive transmission, "speed-sensitive" power steering, automati ride control suspension and four-wheel dis anti-lock brakes.

And this Thunderbird's interior is as impressive as its sleek exterior. Articulated bucket seats with power lumbar and side bolster supports are standard. So is a

Buckle up—together we can save lives.



formance analog instrument cluster, air
ditioning and power windows. There's
n an available compact disc player and a
e speaker JBL sound system.
Ford Thunderbird SC. Parking is such
eet sorrow.

st-built American cars.
The best-built American cars are built by Ford. This is based on an average of consumer-reported problems in a series of surveys of all Ford and competitive '81-'89 models designed and built in North America. At Ford, "Quality is Job 1."

Ford Thunderbird SC

Have you driven a Ford...lately?

The Saigon Floating Hotel at Hero Park
Telephones that work and water you can drink from the tap.

elude the Vietnam ban? The Treasury Department says it isn't sure, and no wonder, given the onionlike layers of control. But Jay says the answer is simple: "These are foreign entities, and we don't control foreign entities." That will come as a great surprise to those who do business with Hale and Southern Pacific, and find the Pritzkers clearly in the driver's seat.

Peter Hook, Southern Pacific's spokesman, says the "floatel," as the oil-rig-like structure is known, is owned by EIE International, a Japanese conglomerate run by Harunori Takahashi, a frequent Pritzker partner; others, including a Vietnamese government agency, are development partners. "It's not as if the Pritzkers operate directly in Vietnam," he says.

Yet the floatel is typical of the flexibility and ingenuity the Pritzker clan has used in quietly building a great network of investments in Asia. Rather than jumping in boldly and noisily, they have used an extensive network of business relationships and local managements. "They make decisions faster than a corporation," says Adriaan Zecha, the Indonesian hotel and publishing magnate and longtime Pritzker associate who works out of Hong Kong. "Doing business here depends a great deal on your relationship network. Someone says, 'Here's a deal,' and you say, 'Gosh, this is good for my friend Jay.' "

Zecha befriended the Pritzkers years ago as a skiing companion at Courchevel, France. Two years ago, when Zecha was offered Southern Pacific Hotel Corp., he did indeed turn to his old buddy. At $435 million, "It was too big a deal for me," recalls Zecha. He called Jay Pritzker, who took a large stake and eventually bought all of Southern Pacific as well as its parent, now called Hale, which until this year was publicly held.

Has it proven a good investment? As usual, yes. In 1988 Southern Pacific owned most of the 38 hotels it operated, mostly in Australia and New Zealand. But the Pritzkers are hotel managers who consider ownership to be unnecessary and risky, so they've sold many of the hotels, covering much of the original cost of the acquisition and retaining lucrative management contracts.

The chain has expanded rapidly and now operates 55 budget and business hotels in seven countries under four names—Parkroyal, Travelodge, TravelCourt and Centra. Another 11 hotels are under development, and the chain is preparing to leap into Eastern Europe. Despite a soft Australian hotel market, revenues rose 15% last year, to about $271 million in U.S. currency; operating profits rose about 10%, to about $25 million.

Hyatt International, the Chicago-based overseas luxury chain, has grown rapidly in the region, with its 51 lush hotels and resorts, the first of them opened in Hong Kong in 1969. With revenues of $653 million last year, Hyatt International is already about one-third the size of the U.S. arm of Hyatt.

As important for the family is Getz Corp., the San Francisco-based trading company that last year generated $600 million in sales of a surprisingly broad variety of automotive, industrial and food products, from farm tractors in Thailand to powdered milk in Taiwan, in 15 Asian and Pacific markets. Here it has cultivated loyalty with long-term local relationships.

So in 1985, when heart-valve maker St. Jude Medical could not maintain adequate supply, Getz executives nevertheless rode out the hard times. Today Getz, with St. Jude, claims to hold 55% of the Japanese heart-valve market.

"With the expanding economies out there, Asia represents a big opportunity, and we've tried to stay open to ideas," says Jay Pritzker. But none of it has been because of a grand strategy, says Robert. Accomplished dealmakers, the Pritzkers have the confidence to move quickly and without lengthy consultation when a deal smells right.

For example, the brothers acquired Getz in 1981 as a small part of the $688 million purchase of Trans Union Corp., a railroad tank car and financial services concern. Getz was then a failing trading operation with sloppy management. The brothers energized it. For example, they built the Getz in-house travel desk into a network of seven travel agencies. The Pritzkers spun off 17% of the stock of Getz Bros., the Japanese division, to the public there. Now trading over the counter at about 5,250 yen (about $36 a share), its market capitalization is about $620 million—roughly 90% of what the Pritzkers paid for all of Trans Union. Did the brothers have a plan for Getz when they bought Trans Union? Not at all. But when they saw opportunities, they grasped them.

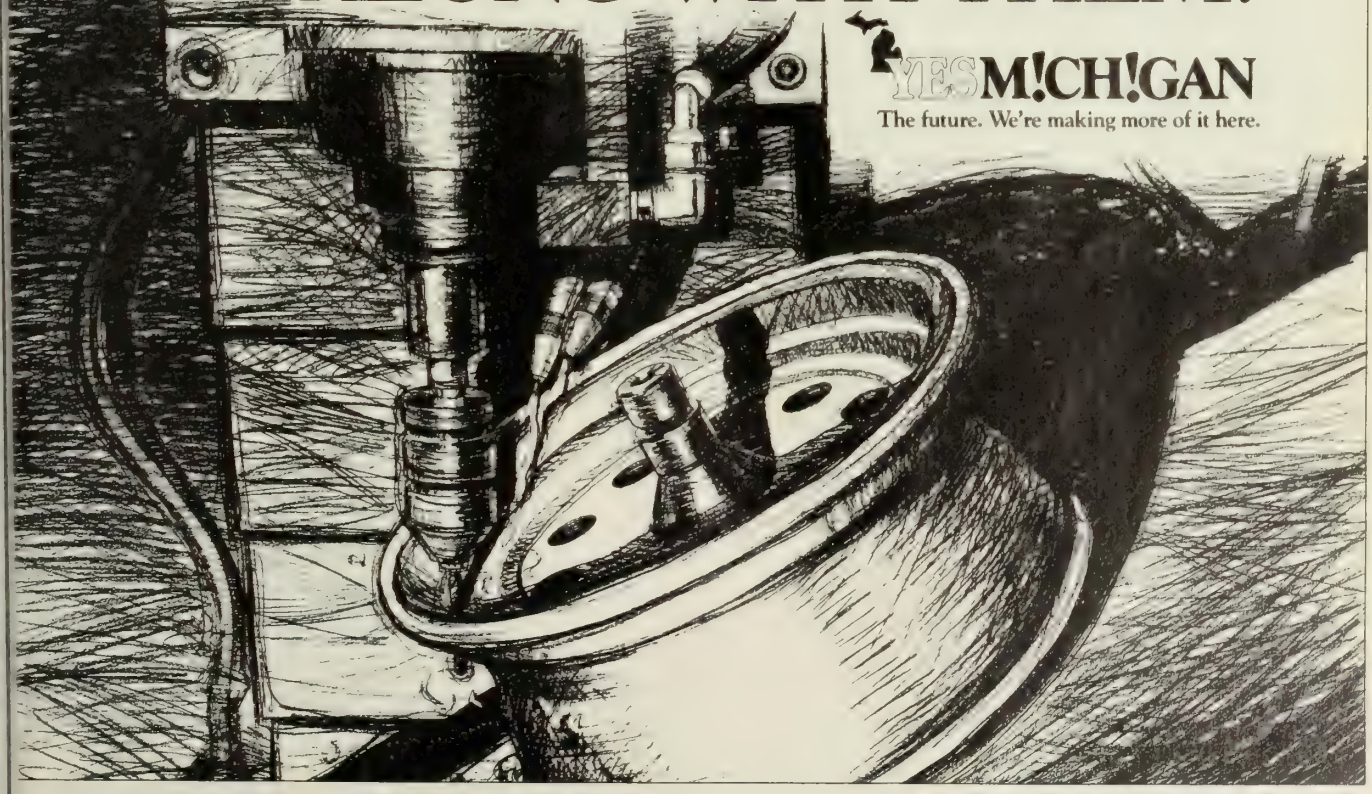
"We don't believe in long-range planning; it's too complicated, and things never work out," says Robert Pritzker. "We all agreed 15 years ago that we'd meet every Saturday to coordinate what we do. We met that following Saturday, but we haven't done it since."

The moral seems to be that if you are a superb tactician you don't need to worry about strategy. ■

MICHIGAN'S MACHINES SURE HAVE COME A LONG WAY.

When you think of Michigan, one of the first things you think of is automobiles. But what about the machines behind the machines? Well, Michigan's machine tool industry is just as technologically advanced as our car industry, thank you. ■ William Bournias, President, Machining and Assembly Systems, Litton Industrial Automation in Warren said, "The 'Mecca' of the machine tool industry is based in Michigan." It's only natural. This is where the big industries are: plastics, appliances and food processing, as well as automotive. But perhaps the most important fact is that Michigan has a skilled work force. John Hobey, President, Olofsson Corporation in Lansing said, "We depend on our people to make decisions in the production process. Most have the equivalent knowledge of high-level university engineering graduates." ■ With that, plus a lot more going for us, the machine tool industry in Michigan can only get better. So for more information, call (517) 373-8495 or write Larry Meyer, Director, Michigan Department of Commerce, 525 Ottawa, Lansing, MI 48909

OUR MACHINE TOOLS HAVE COME RIGHT ALONG WITH THEM.



YES M!CH!GAN

The future. We're making more of it here.

Computers/ Communications

Networks are raging in popularity, but they may harbor some disappointments for both users and investors.

Network nettles

By David Churbuck

THEY THAT WEAVE networks shall be confounded," said the prophet Isaiah (Chapter 19, Verse 9). He was not talking about computers, but in an eerily prophetic way he could have been. For all the wonders that networks bring, or are supposed to bring, to office productivity, they also carry a significant downside: crashes, incompatibilities of hardware and software, sometimes maddeningly slow file servers and, not least, installation costs that can go far beyond the cost of the electronics and the software. "One of the biggest costs in general is the labor," according to Wylie Crawford, former chairman of the Local Area Network Dealers Association in Chicago. "People think they are just buying network cards and wires and ignore the labor needed, for example, to pull cable through a building."

Notwithstanding the negatives, computer users in the U.S. are installing PC networks at a rate of 180,000 a year, says Mary Modahl, director of network strategy research at Forrester Research of Cambridge, Mass. Investors are very hot on the concept *(see table, below)*. Fibronics International Inc., a Hyannis, Mass. company that creates networks of networks by using fiber-optic links, is trading at 36 times earnings. SynOptics Communications, Inc., a MountainView, Calif. firm that says it can deliver nearly the information capacity of optical fibers via ordinary copper wire, has seen its stock quadruple in the past year.

Several practical problems confront a corporate PC customer contemplating the installation of a network. The first is the decision about what kind of wiring to use.

The cheapest wire is plain copper wire of the sort used to install phones. Its data-handling capacity is 10 million to 16 million bits per second, fine for electronic mail but slow for files with a lot of graphics in them. Cost: about $500 per station, including the electronic circuit, or "network board," that receives and decodes the data for the computer.

Next up in cost is coaxial cable of the sort used for cable television. Its capacity is about the same as that of plain copper, but it is better insulated against electrical interference.

Bottom line: A garden-variety local network, using copper or co-ax and hooking together a dozen computers, might cost $15,000 to $30,000 for the labor, cables, file server, other electronic hardware, and software.

And then there is optical fiber, which can deliver 100 megabits (100 million bits) in a second, about ten times as much as ordinary copper. Such speed is mandatory for videoconferencing or some engineering tasks, but would go to waste in a

Henry Hilliard

Wire houses

Networking is a hot concept on Wall Street. With the exception of moneylosing Codenoll, the stocks are trading near their highs.

Company/business	Recent price	52-week high	52-week low	Sales ($mil)	Latest 12-mo EPS
Cisco Systems/internetwork links	29½	30¼	21¼	$28	$0.82
Codenoll Technology/fiber networks	6½	8	4	8	–0.50
Fibronics International/fiber networks	12	12⅞	5⅛	49	0.32
Novell/network software	57	58½	23¾	422	1.83
SynOptics Commun/copper networks	56½	60½	15½	77	1.39
3Com/network software, hardware	18⅜	19¼	10	417	0.72

Source: Disclosure

John Hale, chief executive of Fibronics International
Networks of networks.

typical office network. A lot of users select fiber for high-traffic trunk lines connecting different floors of a building or different buildings in a city; other more paranoid customers value the fiber because it is extremely difficult to tap. One of Fibronics' customers was a company using coaxial cable in elevator shafts to interconnect its floors. "When they ran out of elevator space, the alternative was to take an elevator out of service altogether or replace 384 coaxial cables with one strand of fiber," says John Hale, chief executive of Fibronics.

But fiber is expensive. The cost of hooking two networks via a fiber backbone is $21,000, and for attaching a computer directly to a fiber network about half that, according to Forrester Research's Modahl. If you want a fiber network, it may pay to wait. Modahl predicts the cost of hooking up a computer will fall to $2,000 in 1994.

The next issue is how to get the wire in place—a simple matter in new construction but a big obstacle in an existing building. Under the circumstances, says David Savage, manager of business development for Frye Computer Systems, a software developer and network installer in New York City, it is amazing how few new buildings have built-in fiber. "I'm amazed that the architect would spend so much on Italian marble but barely provide room to move your elbows in the wiring closets," he says.

Building-to-building links aren't any easier if added as an afterthought. Some of Savage's clients have half seriously considered running cable inside garden hoses from building to building rather than face the cost of digging a trench with the necessary city permits.

Just putting ordinary copper wires within a building can cost more than all the rest of the network project. Union cable installers in Manhattan charge $69 per hour. Adds Savage, "They [union and nonunion installers] charge for pulling multiple cables, even though it takes no more labor to pull five wires through a conduit than it does one."

Proteon, Inc., a Westborough, Mass. vendor of both copper- and fiber-based networks, mentions the fiber installations at a midwestern manufacturer that kept crashing. After weeks of analysis, the problem was traced to the installer, an electrician accustomed to working with copper cables who, out of habit, smeared the ends of the fiber with grease.

One more problem has been a lack of industrywide standards for networking. The standard for Ethernet applied over telephone wire, a fairly ubiquitous scheme for connecting computers, was finalized only this year, more than a decade after the technology was invented at Xerox. Token Ring, a networking scheme endorsed by IBM and many other companies, is still unstandardized. A lack of standards has also held back potential customers of fiber networks. Why spend hundreds of thousands putting in a network that might not be usable with a future generation of computers or software? The rival makers of fiber-optic networks hashed out a standard known as Fiber Distributed Data Interface only this year. The fiber market should get a healthy boost later this year when Digital Equipment Corp. and IBM follow through with their announced intentions to support the fiber standard.

For now, users are still very reluctant to use expensive fiber merely to attach a personal computer to a network. That reluctance has played into the hands of SynOptics, the firm that says it can ram data through fairly ordinary IBM Type 1 copper cable at fiberlike speeds, provided the link is no more than 100 yards or so. SynOptics netted $9.4 million on sales of $77 million last year. In contrast, Codenoll Technology, a Yonkers, N.Y. firm that sells the electronic gear to attach a PC to a piece of optical fiber, is struggling. It lost $2.5 million last year on sales of $8.5 million.

Given the uncertainties about the future and the rapidly declining costs of fiber optics, however, the continued dominance of SynOptics in the marketplace is anything but assured. Someday, says Frank Dzubeck, president of the Washington, D.C. network consulting firm Communications Network Architects, such nascent applications as multimedia and interactive video will become commonplace, and fiber will become a standard. In the meantime networking is a perilous world, for both customer and supplier. ■

Governor Elbridge Gerry should have had a Compaq 386 with 16 megs of memory. Then he could really have taught the Federalists a lesson or two.

Silicon reapportionment

By Julie Pitta

REPUBLICANS got 46% of the combined vote in California's 1988 congressional elections, but hold only 40% of the state's 45 seats. Why? Because of Democratic gerrymandering. Since the Democrats controlled the state legislature following the 1980 census, they had the upper hand in the reapportionment negotiations.

The Republicans have scant chance of taking over in Sacramento in time to control reapportionment following this year's census. So they are fighting back with technology. The Republican National Committee has financed development of some fancy software that can reapportion a state on a desktop.

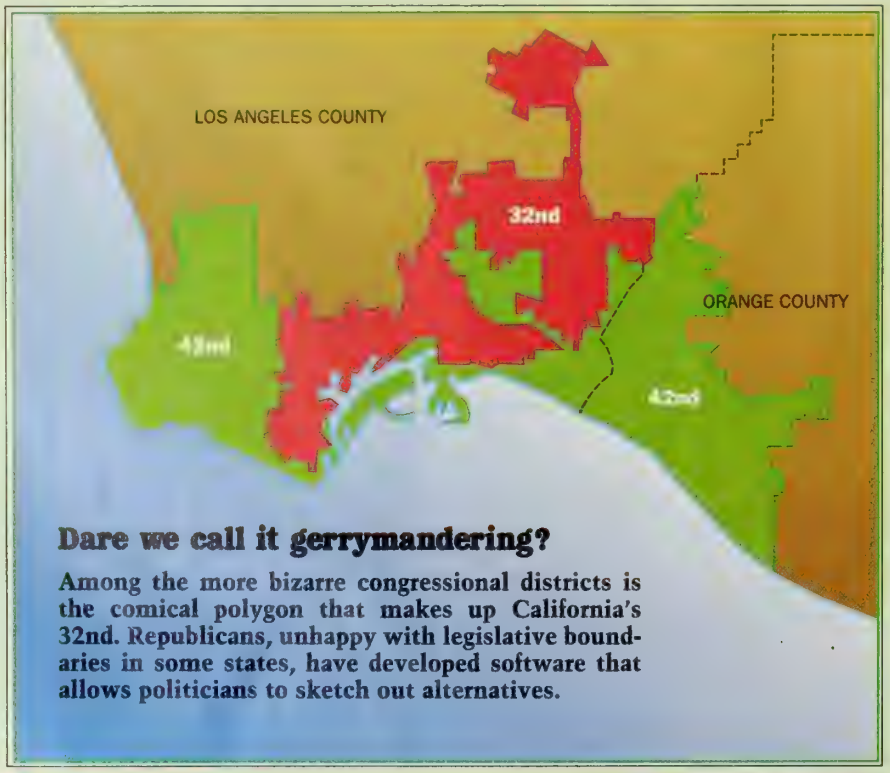
The GOP hopes that the computer will deliver a strategic advantage next year during the political battles over district lines. California's Republican Party is one obvious customer of the software, but the program could also play a role in the redistricting of both congressional and state districts in Texas, Florida and Georgia. Democrats control both state legislative houses in 29 states; Republicans control 8. They split control in the remaining 13. "The state legislatures are where the action is," says Benjamin Ginsberg, chief counsel for the Republican National Committee.

Dividing a state into districts of equal population is mathematically simple; there are an infinite number of patterns that fit that requirement. What's difficult is creating a map that, while maintaining population equality, optimizes some other factor. That other factor might be keeping the districts as compact and cleanly drawn as possible—or it might be something a little more devious. You may want your software to maximize your party's wins in an election while still holding up under a legal challenge. Today's desktop computers aren't quite up to the task of designing a reapportionment from scratch. But they can alter an existing map. "It's an easy task for a PC to draw up a summary of statistics for a particular district," says Stephen Poizner, president of Strategic Mapping Inc., a San Jose, Calif. designer of mapping software for personal computers. "Within minutes you can determine whether you like or dislike someone's map."

To get some idea of the challenge of redistricting, let's go back to one of the classics of the genre. Elbridge Gerry, governor of Massachusetts in 1812, didn't like the Federalists. So he arranged some creative boundary-drawing that concentrated their voting power in a few districts. One of Gerry's districts was squiggly enough to suggest a salamander—hence the verb "gerrymander." How much can such voter shuffling distort the results? In the most extreme case, a party with a bit more than a fourth of the total vote—and with control of the redistricting process—could theoretically end up with a majority of the legislative seats. That assumes that the control party has absolutely no shame in drawing boundaries.

Shift forward now to 1981, when California's legislature redraws state and congressional districts to take account of the 1980 census. Some of the resulting districts are rather creative. The 42nd district, 55% Republican, cuts through two counties on its southeast corner, sweeps across a patch of ocean to encompass a tiny island off the California coast and resumes a convoluted journey up the coast. The nearby 32nd, 56% registered Democrats, is 25 miles from tip to tip but only four blocks wide at its thinnest *(see map)*.

The Republicans responded with a plan to "reform" the redistricting process, which they put on the ballot this spring as Proposition 119. The proposition was a piece of work. It called for districts drawn such that "no less



Dare we call it gerrymandering?

Among the more bizarre congressional districts is the comical polygon that makes up California's 32nd. Republicans, unhappy with legislative boundaries in some states, have developed software that allows politicians to sketch out alternatives.

R. Mansfield/Forbes

XEROX

If you can stand the pain, look at your company through the eyes of your customers.

We would like to express our pride and gratitude for having won the Baldrige Award. We'd also like to share with you some of the basic principles we discovered in our quest for quality.

1. You have to look at your company through the eyes of your customers—even if it hurts. You have to let them define quality for you.

2. You have to have commitment from the top down, from the CEO to the mailroom.

3. You have to establish benchmarks that really stretch you. Set impossible goals. Then meet them.

4. You must get your suppliers involved. In 1983, when we began our Leadership Through Quality process, 92% of parts received from suppliers were defect-free, a fair standard for the industry. Today we have attained 99.97% defect-free parts.

)ur government has made uality a national imperative. In 987 Congress created the Malcolm Baldrige National)uality Award. One financial journalist has called it "a national treasure." Another writes, "It takes plenty of work to capture the new national Holy Grail of quality. Happily, companies that lose get nearly as much benefit as the victors." (Jeremy Main, *Fortune*, April 23, 1990)

It is tough. We underwent a grueling scrutiny—some 400 hours of analyses and on-site inspections by the Baldrige examiners. What they're interested in is the process. But if you apply for it, you can't lose. It will expose your strengths and weaknesses unsparingly. And, if you're serious, it will provide a focus that will send a shiver of energy through the spine of your company.

Since quality became the driving force of our company, our copy quality has set the standard in the industry, and our 1090 copier has been named the best in the world. We have stemmed the loss of market share to foreign competition. We have increased the satisfaction of our customers. We have also increased our number of customers.

Xerox is committed to sustaining the quality process we have entered into. Above all, we have learned that in the race for quality, there is no finish line.

To find out more about the Xerox Quality Process and the Malcolm Baldrige National Quality Award, please write to: Xerox Corporation, P.O. Box 24, Rochester, NY 14692. Or call: 1-800-TEAM-XRX, Ext. 327A.

Malcolm Baldrige National Quality Award 1989 Winner

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Categories covered in the application for the Malcolm Baldrige Quality Award.

1. **Leadership.** How has senior management contributed to the quality process?
2. **Information and Analysis.** How effective is your collecting and analyzing information leading to quality?
3. **Planning.** How have you integrated quality into your business plans?
4. **Human Resource Utilization.** What have you done to involve all employees? How have you informed them? Motivated them?
5. **Quality Assurances.** This focuses on the process put in place for sustaining quality.
6. **Quality Assurance Results.** The one category that actually looks at your products and services.
7. **Customer Satisfaction.** How do your customers like your products? How do you know they do?

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than 60% of the population [in each district] be contained in a polygon." The drafters made a mistake: They meant that 60% be contained in a convex polygon—to limit how many arms and legs a district could have. The Democrats, somewhat more astute in their marketing, stayed away from geometry lessons. They ran television ads announcing that a vote for the proposition was an invitation to have giant corporations despoil the state's virgin forests and coat the beaches with oil. The initiative was overwhelmingly defeated.

Now, Republican hopes are riding on the redistricting software, on which they have spent $500,000 and nearly two years of effort. The software is a technological marvel. It allows users to zoom in on geographical areas as small as a census block—sections of several hundred people in a typical urban area. Demographic information particular to specific regions can be displayed graphically, with different colors representing data like ethnic groups, income levels and voting patterns. Three windows can be opened on the computer's screen at a time, allowing a user to look at different regions concurrently or to simultaneously analyze one region in five different ways. The program needs a huge database of census information, available fairly cheaply from the federal government. It also needs a powerful desktop computer: a machine based on an Intel 386 microprocessor running at 33 megahertz, with 16 megabytes of memory, including what's on a graphics board, a high-resolution color monitor and 300 to 2,000 megabytes of hard disk storage, depending on the state.

The Republicans have dubbed their program the "Fairness Project" and are giving it away to their friends. Intended recipients include not only party members, but also organizations like the American Civil Liberties Union and the NAACP that would seem to have little in common with the Republican agenda. Evidently the Republicans hope these groups will lobby their Democratic legislators for the creation of minority-dense voting districts. If minority populations are concentrated in a few districts, they stand the best chance of getting a few of their own elected to Congress, but would leave behind other districts presumably more hospitable to a Republican candidate. ■

Worth $1 billion just a few years ago, ComputerLand is today worth only a fraction of that. Internal bickering did it in.

A script worthy of Hemingway

By Jonathan Littman

IN THE COMPUTER BUSINESS, a consumer franchise is hard won and easily lost. Look at the cautionary story of Pleasanton, Calif.-based ComputerLand Inc., once the premier computer retailing chain in the U.S.

ComputerLand was in the right place at the dawn of the personal computer decade. In 1981 it became the first retailer authorized to sell the newly introduced IBM PC and immediately dominated the retail market.

Now its share of the $37 billion personal computer reseller market has slipped to just 7%, despite sales at its 730 franchised stores totaling $2.6 billion in fiscal 1989, ended last September. That year ComputerLand lost $34 million on franchise royalties and other revenues of $123 million. Contributing to the loss was a $30 million (pretax) writedown related to mismanagement in its Hong Kong and Scandinavian operations and outright fraud in Australia. Several plans by ComputerLand's owners to take the chain public have been thwarted by poor market conditions and/or Wall Street's disaffection for the company's spotty financial results.

What went wrong? Founder William Millard got into a bitter eight-year battle with outsiders over a minority equity stake in the business.

John Harding

William Millard in better days
In a snit, he sold out.

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But it sounds like this.

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John Harding

John Martin (center) and fellow lawsuit investors
Their victory has been hollow so far.

Comp/Comm

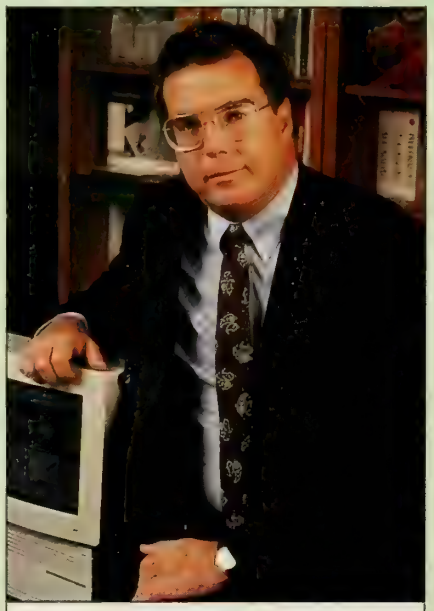
The case went to trial in 1985, and the neglected franchisees responded with open revolt against Millard's autocratic management of the chain. Defeated in court and forced to give up day-to-day control of ComputerLand, in 1987 Millard took off in a snit for Saipan, capital of the Northern Mariana islands, and sold his remaining stake in the company. What's left now? A business with some interesting potential but worth only a fraction of the $1 billion or so it was worth six years ago, at its peak.

The acrimonious legal battle over the ownership of a large block of the company's stock is still far from resolved. ComputerLand's legal troubles started in 1981 when John Martin, a small-time computer franchiser, sued Millard, claiming that a note he had acquired entitled him to 20% of the company. To finance his battle, Martin sold shares in his suit to speculators, who included his sometime lawyer, Herbert Hafif, and famed deal-making duo William Agee and Mary Cunningham. In 1985 Martin et al. seemed to emerge the winners. A California superior court jury awarded them the disputed 20% of ComputerLand plus $141 million in punitive damages. Newspapers at the time estimated the take at $500 million, concluding that investors like Agee and Cunningham, who together paid $375,000 for 1% of the suit, stood to rack up 13 times their investment.

Five years later the winners have not won anything they can buy groceries with. The cash damages were traded for an additional 8% of ComputerLand stock, and the entire 28% is still in a trust.

Before exiling himself to his Pacific tax haven, where he lives behind 30-foot-high walls, Millard sold his remaining 52% stake in ComputerLand for roughly $80 million. The buyers were E.M. Warburg, Pincus & Co. and William Tauscher, a management expert and takeover specialist.

But Tauscher, 40, who has become ComputerLand's chief executive, has his hands full. The PC business has become murderously competitive. A shakeout is in progress among retailers. Discounters and mail-order sellers are taking big bites. While sales have grown every year, ComputerLand lost money in 1987 as well as in 1989. Only a small percentage of ComputerLand's business is still retail. Bulk sales to corporations, the mainstay, have slowed—as they have for other computer retailers like Businessland—and margins continue to narrow. Concessions to the angry franchisees cut the franchise and advertising fees nearly in half, from 8% of sales to between 4% and 5%.



ComputerLand boss William Tauscher
No easy turnaround.

Tauscher has worked wonders in ComputerLand's relationship with its franchisees. International operations are back in the black, and the company generated $12.2 million in pretax profit for the first half of fiscal 1990. The company says its retailers' sales for the full fiscal year could top $3 billion.

Tauscher withdrew a plan to go public two years ago at $16, a price that would have valued the company at around $200 million. Suitor Martin testified this spring, in his own personal bankruptcy case (liabilities, $1.7 billion), that Morgan Stanley was prepared to offer his remaining 7% to 8% of ComputerLand stock privately for $17.60 to $24 a share. This deal has reportedly been scuttled. Martin's investor group, meanwhile, claims its 28% stake is worth $18 to $20 a share. This for a company that in 1988, FORBES estimates, earned around 50 cents a share.

But even if ComputerLand went public at $20, an iffy proposition, many of the lawsuit speculators would get less return on their money than if they had parked it in an interest-bearing checking account. Each 1% lawsuit share would turn into around 26,000 shares of ComputerLand common, worth, after lawyer's fees and payments to Martin, less than $500,000. And having beaten Millard in court, the speculators are now battling each other over who has what percentage of the shares awarded by the court five years ago.

Harold Nachtrieb, an attorney who helped Martin defeat Millard five years ago, compares ComputerLand's travails to the movie version of Hemingway's *The Old Man and the Sea*: A fisherman captures a marlin so big he can only tow it behind his tiny boat on the way back to port. During the journey the fish is eaten by sharks. Says Nachtrieb: "I have a vision of Spencer Tracy holding one end of the fishing line, and on the other end is a skeleton of what was once the greatest marlin of them all."

That of course is an exaggeration. There's still plenty of meat on this fish, but not nearly as much as there might have been without all the squabbling. ■

PENTHOUSE IS A GENERAL MEDIA PUBLICATION.

NOT EVERYBODY UNDER A SHEET IN PENTHOUSE IS IN THE MOOD FOR LOVE.

If you think it's love that makes the world go ›und, you don't know about all the hate groups ›ringing up around us.

Hate groups like the Silent Brotherhood, ıe Aryan Nations, the Skinheads, the National ssociation for the Advancement of White People nd, of course, the ever-hateful Ku Klux Klan.

The groups may vary, but as Penthouse dis- ›vered, their thinking is the same: blacks are ıt to pollute their blood, Catholics are vassals f the Pope and "satanic" Jews are subverting ıe country's banking system, the government nd the media.

For almost a dozen years, Penthouse has been investigating these groups. Exposing everything from their violent creeds to their swelling ranks. We've even interviewed many of their leaders, including David Duke, whose recent election to the Louisiana Legislature sent a shock wave across America.

It's this kind of investigative reporting that has earned Penthouse scores of journalistic awards. And enables us to reach over 16.1 million readers per issue.*

Readers who love knowledge: Penthouse has an even higher percentage of readers who went to college than Esquire has.†

Readers who love success: A higher percentage of our readers are executives than Playboy's readers.◇

And readers who love to spend: Last year the readers of Penthouse bought 50 billion dollars worth of consumer goods.

When you stop to consider all this, is it any wonder that our ad pages went up 17.4% in the past year?

All these facts should compel you to harbor at least one prejudice.

A prejudice towards Penthouse.

PENTHOUSE

WHERE NOTHING IS MORE NAKED THAN THE TRUTH.

:slie Rifkin Penthouse Readers per Copy Study ABC Pub. Statement 6 mos. ending June 1989
ıl 1989 MRI Study ◇Based on salary levels of $40,000 and over

Commentary by Richard A. Shaffer

INTEL

When everything is going right, the smart investor starts worrying. The worry helps put him or her in a suitably skeptical frame of mind.

These days few companies seem more right than Intel. As the sole supplier of the computer industry's most important single part—the 80386 microprocessor—Intel enjoys profit margins far greater than those of its competitors. Intel earns about 13 cents on every dollar of sales. Advanced Micro Devices, Motorola and Texas Instruments earn 5 cents or less, and National Semiconductor is losing money.

Among the larger semiconductor companies that sell primarily to outside customers (IBM makes semiconductors for its own use), only Intel in the last decade has increased its share of market, despite a flood of imports. During the 1980s Motorola's share of the chip market went down by half, and the market position of Texas Instruments fell by two-thirds. Intel raised its share of the noncaptive, or merchant, chip market to 6.5%. The price of Intel shares has risen by more than a third this year. Revenues have been increasing at twice the industry average, and if personal computer sales rebound next year, as most people expect, Intel's earnings could surge.

When things go as well as this, the smart investor starts to worry. And rightly so in this case. The computer industry is changing in ways that dim Intel's prospects over the next few years.

In Intel's view of the future, microprocessors will keep growing pretty much as we know them. By the year 2000 all of the integrated circuits that today fill the inside of a desktop computer (except for the memory circuits) will fit onto a single chip—and, of course, it will come from Intel.

Again in Intel's view, the chip, which Intel likes to call the Micro 2000, will contain millions of tran-

sistors. Although such microprocessors are at least a decade away, Intel talks about them to reassure customers for its present microprocessors—the 80386 and 80486—that future microprocessors will be available to extend the market for systems and software based on today's Intel designs.

I've no doubt that such microprocessors can be built. But in the interim I believe a new definition will emerge for the term "industry standard," which will undercut the value of Intel's position as the only source of a product that almost everyone wants.

Initially, the most important software for the personal computer bypassed Microsoft's MS-DOS operating system and manipulated the display screen, disk drives and other parts of hardware on its own. Consequently, compatibles such as the Compaq had to be very similar to the IBM in design, which became the industry standard. Thus, a few years ago, anyone who wanted to use programs that were written for IBM's desktop computers could do so only on IBMs, of course, or on computers built around the Intel microprocessors that IBM had chosen. But more and more of those programs—1-2-3 from Lotus Development, for example—are being rewritten to run on computers that don't use Intel microprocessors.

In addition, to minimize the cost of learning to use it, the latest software is being designed to look and operate the same way on computers that, in electronic terms, are very different.

Gradually, the term "industry standard" will refer to the way in which a computer relates to the world around it, not to the parts from which it is made.

Computers will become much more like cars. When you buy a car, do you ask who made the engine? No. When you slide behind the wheel of an unfamiliar rented car, do you have to search for the turn signals? No. Well, someday soon you'll be able to act the same way with a new computer. You won't ask who made the microprocessor that serves as its engine. You won't reflect on the operating system, or on the computer equivalent of a dashboard, the user interface. You'll just take it out for a spin. And when that day arrives, the brand of microprocessor inside a computer will be much less important than it is now.

The principal threats to Intel, however, are the international alliances of far bigger companies. Seven of the world's largest semiconductor manufacturers (Fujitsu, Hitachi, NEC, N.V. Philips, Samsung, Siemens and Texas Instruments) have affiliated with three factions of the Reduced Instruction Set Computing forces in an attempt to take market leadership from Intel. A number of these companies once had rights to make Intel's microprocessors. Now that Intel has decided to stop licensing others to make its products, these companies are fighting back by acquiring the rights to make RISC microprocessors, which by some measures are better than Intel's.

Now, I'm not predicting the fall of Intel, which is blessed with a number of large systems customers whose own interests are served by maintaining Intel's primacy. Still, even if the RISC combinations fall short of their goals, they are likely to diminish Intel's influence over desktop computing and, thus, its profitability.

To date, the desktop computers built around these RISC microprocessors haven't been all that much faster than personal computers based on Intel's microprocessors. But much more powerful RISC computers are due later this year.

If those computers run the popular software, and run it—from the user's point of view—the same way IBM and compatible computers do, who will care what brand of microprocessor is under the hood? ■

Richard A. Shaffer is founder of Technologic Partners, a technology consulting company in New York City, and publisher of Technologic Computer Letter.

THE ZONES PENTHOUSE FOCUSES ON AREN'T ALWAYS EROGENOUS.

Before this was a war zone, it was a ustling city where people worked, raised milies and enjoyed evenings together at eighborhood cafes.

In a recent issue, *Penthouse* called the rooting of people to make room for war nes "One of today's international mass agedies."

The regimes in El Salvador, Guatemala d Nicaragua forced out hundreds of thou- nds of rural dwellers. To our shame, Amer- ans removed a million people in Indo- ina. And, for 14 years, Beirut's civil war has srupted the lives of its entire population.

Over our history, *Penthouse* has tried to ake sense out of the conflicts of our times by interviewing the leaders involved in them: Ortega on Nicaragua; Bishop Tutu on South Africa; Castro on Cuba; Kissinger on Vietnam.

We were first to expose the criminal neglect of the Vietnam veteran—who's still remembered in a monthly *Penthouse* column.

And, because war has its absurd side too, we exposed some of the heroic-sized rip-offs at the Pentagon. Like its multi-billion dollar air defense weapon that could only shoot at helicopters. (And not too well either. In a test, it ignored the rotating blades it was programmed to aim at and zeroed in on a nearby bathroom exhaust fan.)

Penthouse probes for the truth on all kinds of wars from the political wars in Washington to the financial wars on Wall Street. It's no wonder we've won so many cherished victories:

More newsstand sales than any other men's magazine, with 16.1 million people reading every issue.*

Starch ad scores higher than those of *Esquire*, *Playboy* and *Time*.

When you stop to consider all this, is it any wonder that our ad pages went up 17.4% in the past year?†

You fight a war too—with your competitors in the marketplace. One of your weapons should be *Penthouse*.

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slie Rifkin Penthouse Readers per Copy study ABC Pub ement 6 mos. ending June 1989. †LNA

Science & Technology

Edited by Gary Slutsker

Little drug companies are looking for fairly big discoveries—but not so big that the giants horn in. Alkermes is aiming at the blood-brain barrier.

Breaking the barrier

By David Churbuck

ANY DRUG COMPANY that discovers better treatments for Alzheimer's disease, AIDS or a host of other brain-related disorders stands to profit handsomely. But some of the rewards may go to a little company that aims to do no more than help ferry such treatments to where they are needed—into brain cells, that is. This small Cambridge, Mass. startup, Alkermes, aims to breach the so-called blood-brain barrier, a biochemical wall that stands in the way of almost any drug aimed at treating a malady of the brain cells. The AIDS virus, for example, can cross this barrier but the main anti-AIDS drug can't.

The blood-brain barrier has an important biological purpose. It largely insulates the brain from chemical changes in the blood brought about by eating, stress, hormonal surges and other fluctuations that could spell disaster if they were allowed to affect one's gray matter. But it also keeps out lifesaving drugs. (Some dangerous drugs cross the barrier readily—cocaine and alcohol among them.)

For a good part of this century scientists have struggled to find a way to deliver therapeutic drugs to the brain. So far, the only way in for a lot of chemicals is through either massive dosages or injections of sugar solutions into the carotid artery to open chemical holes in the barrier. Now, Alkermes claims that it has broken through the blood-brain barrier with a biological Trojan horse.

Alkermes' founder and chairman is Michael Wall, 61, an MIT-trained electrical engineer and biotechnology matchmaker with the founding of Centocor to his credit. After taking a course in neuroscience at the Scripps Institute in La Jolla, Calif., he decided that the 1990s would be the decade of the brain in the biotechnology industry. He rounded up $13 million in venture capital—$50,000 of it his own—and opened Alkermes in 1987.

The trick in starting a biochemical company like this is to find a specialty narrow enough to be overlooked by the giant drug companies yet large enough to yield a good return if your scientists hit pay dirt. Wall scored with Centocor by pushing it into monoclonal antibody test kits that help detect the presence of cancer cells. Now Centocor boasts sales of $28 million and a market capitalization of $575 million.

Wall's second speculation is an even bigger challenge. With 30 employees, 10 of them Ph.D.s, Alkermes stays afloat on the equity capital plus $5 million in revenue from a three-year research contract.

The large drug companies, to be sure, have not overlooked the blood-brain barrier. But they have been working on ways to deliver specific drugs to the brain, not on a generic carrier that could move any desired drug. Wall claims to have found that generic carrier, something he can license to a lot of drug firms.

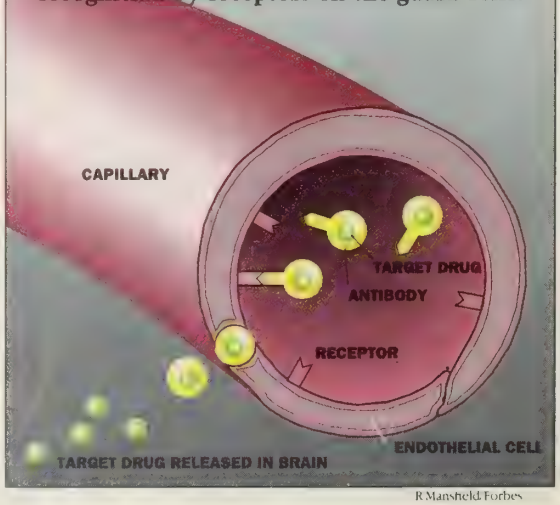
Alkermes' scientists found a model for their carrier molecule in nature. One of the ways that the body ferries natural chemicals such as insulin across the tightly packed endothelial cells lining the blood vessels in the brain is by wrapping the chemical in a protective packet called an endosome. The endosome is picky. It will deal only with substances that it recognizes. Once it detects a chemical it deems friendly, it binds to it, making up a chemical package that is ferried across the cell barrier into the brain. There the package opens, releasing the substance.

Methotrexate, an anticancer drug, is not acceptable to the endosome. But it can be attached to something that is. That something, Alkermes found after considerable hunting, is an antibody molecule. Using rats and some genetic engineering techniques, Alkermes clones antibodies to fragments of the body's own endothelial cells. The target drug is stitched to these antibodies. The antibody molecules course through the blood, latching onto the endothelial cells. Endosomes are willing to accept a complex consisting of the antibody, the attached drug and the endothelial fragment. The whole complex is ferried inside the brain cell, where the drug splits off and the other parts are either digested or recycled.

Alkermes tested the system on rats implanted with brain tumor cells and then treated with a cancer-fighting drug. The rats treated with the drug—but not the carrier antibody—died within 13 days. Those treated with the drug and the antibody lived

Into the breach

Endothelial cells lining the tiny blood vessels of the brain stand guard against the entry of unfamiliar chemicals, including vital drugs. To fool the system, scientists at Alkermes create antibodies that trigger a recognition by receptors on the guard cells.



R Mansfield/Forbes

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THE BEDROOM ISN'T THE ONLY CHAMBER THAT PENTHOUSE GIVES YOU AN INTIMATE LOOK AT.

When a condemned man in Florida State Prison has a date with "Ol' Sparky," officials choreograph the event with military precision.

At dawn, the last meal. At 5:30, shaved head. At 6:50 last walk and so on until electrodes and power lines, straps and leather mask are in place for the throwing of the switch at 7 o'clock sharp.

In a recent exclusive story, *Penthouse* revealed that nobody knows exactly how much it takes to kill a human being with electricity, but what's used is always sufficient: an automatic cycle from 2000 volts and 5 amps to 500 volts and 15 amps for a full two minutes.

When the circuit breakers of the prison connect, there's no fizzing, buzzing or flashy finale for the benefit of the witnesses. Just a mechanical clunk. And a life has been ended.

Whether you think the death penalty deters crime or makes killers of us too, *Penthouse* believes it's important to know the harsh truths behind it.

In fact, that's the *Penthouse* philosophy on every serious issue, from the safety of nuclear power to surrogate motherhood.

Over the years, stories that others shy away from have earned *Penthouse* major journalistic awards. Not to mention 16.1 million readers per issue.*

Also, first place in newsstand sales over all other men's magazines. Starch ad scores higher than those of *Playboy, Esquire, Sports Illustrated, Field & Stream* and *Time.* And a 17.4% ad page increase over the last year. Those are strong signs of life.

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*Leslie Rifkin Penthouse Readers per Copy study Pub Statement 6 mos. ending June 1989

until the tests were ended, at day 25. If the system works in rats, it might work in humans, too. Alkermes aims to do toxicity testing on the carrier system soon. Clinical testing of the drug/carrier combinations will be up to the drugmakers.

Wall's model for success is Alza Corp., a drug delivery company that racked up $93 million in revenue last year from royalties, contract research and sales of drug pumps. Investors should note that Alza ran up cumulative losses of close to $100 million before turning profitable in 1983.

With little in the way of competition, Alkermes so far has been able to dodge the pharmaceutical companies while keeping them interested in its work. But it probably has a long way to go before delivering a profit. ■

Insights

Commentary by Peter Huber

IN PRAISE OF THE BIONIC COW

"The cow is of the bovine ilk," Ogden Nash once observed, "One end is moo, the other milk." But Nash lived in simpler times. Today the various ends of cow (there are more than two) are much in controversy. Unfortunately, some self-styled greens are fighting hoof and nail to get into the cow act. In the process they are hastening environmental degradation and undermining the public health.

Their recent fury is aimed at what goes into the cow to enhance its growth. Anabolic steroids, a form of growth hormone, cause cattle raised for beef to grow faster and leaner. And now bovine somatotropin (BST), the first major agricultural product of biotechnology, promises to boost milk production by 25%. The greens have launched passionate campaigns denouncing both of these products as vile poisons.

Their strident and scientifically baseless objections have found willing ears. Last year, in what almost precipitated a transatlantic trade war, the European Community buckled to hysteria raised by German greens and banned all beef raised with the growth hormones. The European Community has likewise banned dairy products produced with BST. Earlier this year Wisconsin and Minnesota bowed to threats of orchestrated consumer panic and imposed similar moratoriums. Terminally trendy Ben & Jerry's, maker of fat-laden ice cream, has joined the act, and denounces BST on its cartons.

The irony, lost on the likes of Ben and Jerry, is that both the steroids and the somatotropin are good for public health and environmental protection. Good, because they help

tune up today's cow, a beast that begins as a dubious performer on both counts. The problems, stated simply, are flatulence and fat.

Flatulent livestock is a major, unregulated polluter—causing 25% of all methane emissions attributable to human activities. As a greenhouse gas, methane is much worse than carbon dioxide; cows are thus big contributors to whatever global warming problems we may face. Moreover, millions of acres of rain forests are cleared for cattle grazing every year, and cattle contribute significantly to topsoil erosion and water pollution from agricultural runoff.

What the cow emits in other ways, sometimes by way of the milking machine, sometimes by way of the ultimate sacrifice, is fat. As one dreary study after the next confirms, we should all be consuming less animal fat, whether it issues from the udder or the flank.

The world thus urgently needs a more efficient cow. One that spends less time ruminating and belching, one that produces more milk for the methane, more meat for the marble. Why the chemical companies have not thought to emphasize the point I cannot fathom, but this is precisely what their growth-enhancing products provide.

Bovine anabolic steroids do for cows pretty much what human equivalents do for Olympic sprinters: stimulate faster, leaner growth. Thus, eating two all-beef patties ground from a four-legged Ben Johnson is much more healthful (though less savory) than downing a quarter-pound of bovine Mae West. The health benefits of eating so much less fat far outweigh any imaginable risks that hormone residues in the meat might cause, most especially since the best scientific opinion holds that these minuscule residues are harmless. We consume much larger quantities of natural cow hormones all the time, but hormones, happily, are species-specific. For humans, cow hormones are just another form of digestible protein.

BST doesn't cut the fat out of milk, but, like steroids, it can make cows more efficient at converting grass to human food. In other words, you can produce the same amount of milk with 20% fewer cows, and an almost concomitant reduction in methane emissions. If enviroguru Jeremy Rifkin, a leader of the anti-BST campaign, gorges on Ben & Jerry's ice cream, he not only clogs his own arteries—a private matter, of course—but also helps tie up as cow pasture the land that might otherwise revert to beautiful woods. For my part, I want to be able to buy lean burgers, and I favor efficiency in cows as much as in cars.

We now have the technology at hand to run Cadillac cows with Chevette emissions. We will soon have similar chemical turbochargers for pigs and other livestock. Why are the BST greens falling all over themselves to outlaw these healthy, environment-friendly products? We are really dealing with a reflexive hostility to anything produced by technology, especially if produced for profit.

"One end is moo, the other milk." In deciding what is environmentally sound and what is not, the greens should think a little harder about which end is which. ■

Peter Huber, a senior fellow of the Manhattan Institute, is the author of Liability: The Legal Revolution and Its Consequences.

ITHOUSE IS A GENERAL MEDIA PUBLICATION.

SOME OF THE BIGGEST BUSTS PENTHOUSE UNCOVERS AREN'T THE KIND YOU THINK THEY ARE.

The seizure of 50 pounds of cocaine sed to be considered a major drug bust.

But the numbers keep growing:

165 pounds of Southeast Asia heroin nuggled in by members of a growing enace known as the Chinese Cosa Nostra.

1350 pounds of cocaine flown in y the top aide to the drug-kingpin of olombia.

In a Penthouse interview, Robert tutman of the Drug Enforcement Adinistration told us: "People used to say, Vhy don't you arrest the big dope peddlers?' Nobody says that anymore."

Penthouse has always considered the war on drugs a story to be pursued wherever it leads. It's a war in which the body count includes our children.

Throughout the years, *Penthouse* has exposed all kinds of battles in life. From the war against drugs to the struggle against AIDS. From the skirmishes in politics to the friction between evangelists. From the Sandinistas to Star Wars.

It's reporting like this that has earned *Penthouse* major journalistic awards. And an audience of 16.1 million readers per issue.*

A higher percentage of them went to college than among *Esquire* readers.† And we have more well-paid executives than *Playboy*.◇ Our audience spends far above the average on all sorts of consumer goods. Last year, 50 billion dollars worth.

That's something to think about in the battle against your competition.

PENTHOUSE

WHERE NOTHING IS MORE NAKED THAN THE TRUTH.

eslie Rifkin Penthouse Readers per Copy Study ABC Pub. Statement 6 mos ending June 1989
all 1989 MRI Study ◇Based on salary levels of $40,000 and over

Personal Affairs

Edited by William G. Flanagan

Czechoslovakia's Southern Bohemia is long on history but short on decent accommodations. Solution: Make day trips from Germany or Austria.

Day-tripping in Bohemia

By Richard C. Morais

ROZMBERK, CZECHOSLOVAKIA. The scene is right out of the Middle Ages: A ridge-top Gothic castle entwined in wild roses commands the Vltava river and the ocher hamlet below. Inside the castle are banisters fashioned with mahogany griffins, rooms crammed with Meissen china, iron masks of torture, hand-painted Czech crystal.

Across the village's cobblestone-paved bridge, in the shadow of a dusty 13th-century church, a dozen cracked and faded Renaissance houses squat on the river bank. They are over a century out-of-date: They lack central heating and some even appear to lack running water. A wispy-haired woman pins washing on a line strung between houses. A man fishes for pike.

Ah, the glories of socialist development. Nothing has been tarted up or torn down—and certainly not improved—in nearly 50 years. More important for Western tourists interested in visiting the region, acceptable hotels are virtually nonexistent.

Fortunately, Rozmberk and other fascinating medieval towns in this corner of Czechoslovakia are only a few miles from the Austrian border, a three-hour drive from Munich, or two hours from Vienna. Rental cars are in ample supply, and there are no longer any border hassles. Since May, even Americans and Canadians can travel to Czechoslovakia without the irritating visas and mandatory currency exchanges.

Roads are surprisingly well maintained. Traffic is light, since cars are unaffordable luxuries for most Czechs, and Western tourists in the provinces are still few and far between. The country is also ludicrously cheap. A full meal in Czechoslovakia—a cabbage soup, dumplings and pork roast, excellent beer and Turkish coffee—will set you back about $1.

The Czechs are extremely friendly and are on a pro-America jag that most Americans haven't seen since the summer of 1945. Stars-and-stripes stickers are plastered on Skodas. The Czechs are basking peacefully in their first summer of freedom in over 50 years. The optimism is palpable.

Very few Czechs speak English, but a little German will get you far. A sense of humor and adventure is a must. Fresh vegetables are impossible to find, so when this reporter spotted "cold peach soup" on the menu at a restaurant in Pisek, he eagerly ordered it. After all, peaches were in season. But the "soup" turned out to be canned peach syrup, thinned with tap water, crowned with a heavy dollop of cream and crumbled chocolate sugar wafers.

There are other culture shocks. Western-style ambling through museums is not allowed: Every hour a group of tourists is locked in a museum and ushered through the rooms by a guard.

Where to stay across the border, if you want to explore Southern Bohemia for a few days? We picked the town of Freistadt in Upper Austria as our base from which to make forays. A beautiful Baroque town in its own right, Freistadt is just 11 miles from the border and boasts a number of old inns (double rooms, including breakfast, are under $50 a night). The Gasthof Jaeger (43-7942-2112), off the main road from Linz, will do, but it is poorly run by a sour couple. Far loveli-

The town square at Ceske Budejovice
The local Budweiser Budvar beer is world famous.

Gun collection at Orlik Castle dates back 300 years
Includes gifts from Czar Alexander and Metternich.

Heimo Aga/Contact

The town and castle of Jindrichuv Hradec in Southern Bohemia
Inside the walls, scenes from the Middle Ages.

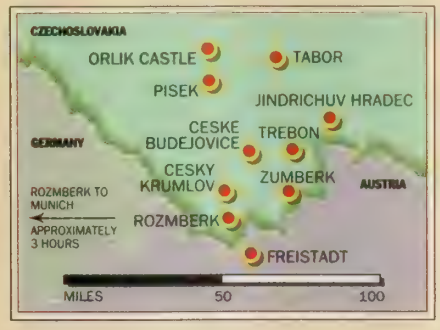
er is the Gasthof Deim (43-7942-22580), with a beer garden, friendly service, and swallows nesting in its cool stone passages.

Armed with Czechoslovakia's official tourist pamphlet on Southern Bohemia, a map and a guidebook, we explored the province. The pamphlet—available at any official Czech travel bureau around the world—is useful as an indicator but is full of socialist cant. It spends paragraphs on hydroelectric dams, for example, but hardly mentions the fairytale Orlik Castle, one of the most interesting sights in the entire region.

Orlik Castle is situated at the top of Southern Bohemia, a 1½-hour drive from Freistadt. Despite its historic significance it is a bit hard to find, so get directions. Many places of touristic interest are poorly signposted.

Orlik Castle, which dates from the early 19th century, rises like a stone sphinx from a lake. Within is housed an extraordinary gun collection, which dates back to the 17th century. It was assembled by the previous owners, the Schwarzenbergs. Included among the 300-odd hunting rifles are guns worked with gold and silver, which were gifts to the family from Czar Alexander and the Austrian statesman Metternich. The most recent guns date from 1946—when the family fled the communist regime.

About 25 miles east of Orlik is Tabor, a fortified late-Gothic town with a history of fierce independence. In the early 15th century Jan Hus, the reformer from Prague, was burned at the stake for stirring up Czech nationalism against the Germans and the Church of Rome. But a group of farmers—known as the Taborites—continued to wage his anti-Catholic, anti-German war, until an uneasy peace



was negotiated in 1436.

Near Tabor's town wall Gypsies now live in decrepit medieval homes, scavenging for firewood that is stacked on wooden porches that appear several hundred years old. Cobblestone passages, smelling of bouillon and bad plumbing, lead to an airy town square with Renaissance and Baroque houses in faded pinks, blues and bottle greens. A labyrinth of secret passages under the town were used as escape routes from the Catholic armies.

Pisek, 27 miles to the west, is a very old town that boasts the oldest (1278) stone bridge in Czechoslovakia. But if time is short, skip it. The bridge, still very much in use, is decidedly hohum. Baroque houses in Pisek are overshadowed by bunker-like socialist architecture.

Jindrichuv Hradec, 28 miles south of Tabor, is quite a large city, encircled by huge concrete Brezhnev apartment blocks and ponds that smell like toxic waste dumps. But inside the old walls another world awaits. A 13th-century cloister now houses the hospital. Some town houses are decorated with black-and-white sketches, granite cartoons from the Middle Ages. Weeds grow in tufts from the drainpipes.

Trebon, 15 miles south again, is a curiosity. It is a village with castle, but its main attraction is the network of 270 carp ponds that surround the town. In the fall the ponds, built in the 16th century and connected by canals, are drained for "Saint Peter's harvest." If you have the stomach, go to the only restaurant in the town square, where for 80 cents you can try the carp "Treboner-style." (Neither the heavy salting nor the sautéed peppers can disguise the bony, oily meat that tastes like an old seagull's foot.)

Close by and just 30 miles from the Freistadt border is Zumberk. Past goose farms, scampering hares and

abandoned porcelain factories is this home of yeoman families since the 13th century. Part museum, part active town, the tiny enclave features painted furniture—early-19th-century pieces belonging to bakers and cobblers that are superb examples of the country's unique naive art.

The provincial capital of Ceske Budejovice is not to be missed, and it's just 30 miles north of the Austrian border. The old trading city within the moat and walls is alive with the surprisingly light colors of Renaissance and Baroque Czechoslovakia. The town square is ringed with pink and pastel facades. Take a simple meal of beer and goulash at Masne Kramy, a 16th-century butcher shop now operating as a restaurant. The frothy Budweiser Budvar—acclaimed by connoisseurs the world over—costs 17 cents a half-liter.

Cesky Krumlov, a 20-minute drive from the border, is a high point in the Bohemian experience. Singled out by UNESCO as one of Europe's great historical and architectural treasures, the town is wrapped around the Vltava river and dominated by a spooky castle in which Bela Lugosi might have felt at home. But it is a town sadly in need of restoration. Its cobblestone passages and medieval houses with crooked chimneys are unpainted and crumbling.

You pause as you watch an old, toothless man shoveling cheap brown coal down a chute, and wonder what his and other Czechs' lives might have been like if socialism hadn't been forced upon them.

Stone bridge at Pisek, built in 1278
Still in use for a new generation.

Heimo Aga/Contact

Collectors

Artists who recorded the early American West have been largely ignored, giving Jack Warner the chance to create a remarkable collection.

A gallery of Indians

By Christie Brown

MENTION WESTERN ART, and the names Frederic Remington and Charles Russell spring to mind. But to the true connoisseur of early American art, they were Johnny-come-latelies, painting as they did after 1880. By then the camera was in common use and much of the wilderness had been tamed. Cowboys, not roaming tribes, ruled the plains.

For a handful of western art collectors such as Jack Warner, the works by earlier American artists are much more to be prized. These adventurous painters took to the trails with charcoals, oils and easels, often to record what no white man had ever seen before.

Warner, 73, chairman and majority owner of family-held Gulf States Paper Corp., in Tuscaloosa, Ala., has long been a collector of 19th-century American art. Indeed, the Gulf States collection he put together over the past 20 years includes over 500 works, worth an estimated $80 million. The corporate collection is considered one of the best in the country and includes both western and nonwestern works by Rembrandt Peale, Winslow Homer, Mary Cassatt and John Singer Sargent, as well as Remington and Russell. Most of the collection is on display at the company's extraordinary, Japanese-inspired headquarters in Tuscaloosa.

But you'll have to visit Warner's office to see who his favorite American painters are—early-19th-century artists Charles Bird King, Alfred Jacob Miller, George Catlin and Karl Bodmer.

From his desk Warner confronts the solemn stares of "Black Hawk," chief of the Sauk tribe; "Pushmataha," chief of the Choctaw; and "Petalesharro," chief of the Pawnee—all of whom sat to be painted by Charles Bird King between 1821 and 1842.

"Progress" by Asher Durand, 1853
The Hudson River as it once was.

There is also "Buffalo Hunt," painted by Karl Bodmer during a trip up the Missouri River in 1833, and "Battle Between the Sioux, Sauk and Fox," which George Catlin witnessed and painted in 1846.

These artists knew they were capturing on canvas a rapidly disappearing way of life, and they went about painting with a frenzy—despite little commercial market for such works at the time.

In fact, for a while, the U.S. government was the only buyer. In 1825 the Superintendent of Indian Affairs, Thomas McKenney, commissioned King to paint the portraits of more than a hundred Indian chiefs who were being invited to Washington for peace talks. The chiefs were wined, dined and painted, and then sent on their way back home, sometimes decked out in the uniforms of army generals and wearing silver peace medals.

The peace didn't last, but the War Department's Gallery of Indians did—at least for a while. But all the original paintings, hung in the Smithsonian, were destroyed by fire in 1865.

Fortunately, King had painted other versions of some, which he kept for himself or gave to the chiefs. About 60 of those portraits are known to have survived.

The most adventurous and prolific of the "Indian recorders," as these

Photos by Mike Clemmer

Jack Warner in his office, with chiefs "Black Hawk" (center) and "Pushmataha," by Charles Bird King
Early-19th-century portraits of the leaders of doomed tribes.

painters were known, was Philadelphia-born George Catlin (1796-1872). He traveled from Alaska to Tierra del Fuego painting the native scenes and peoples.

In 1826 Catlin, fascinated by the Indian chieftains who were traveling to Washington and being painted by King, went off to record them in their native lands. Armed with letters of introduction from Superintendent McKenney, he took off for far-flung forts along the Missouri River. After eight years he returned with more than 500 paintings of 48 different tribes. Typical scenes were buffalo hunts, tribal wars and ceremonial dances.

Catlin had hoped the government would buy his works, but when it refused, he headed for London in 1840 and set up Catlin's Indian Gallery on Piccadilly, complete with a Crow tepee. His nephew, in full Indian dress, drummed up business by doing war dances.

Catlin also exhibited at the Louvre in Paris. He managed to sell enough paintings in Europe to travel and paint thoughout the American West and South America.

Then there was Karl Bodmer. A Swiss artist, he was hired by Germany's Prince Alexander Maximilian to join his expedition to the wilds of America in 1832. Inspired by stories about Daniel Boone, Maximilian traversed Pennsylvania and sailed down the Mississippi and up the Missouri rivers over a two-year period.

Bodmer made detailed paintings of the Dakota, Omaha, Crow and Mandan tribes. Holed up in Fort McKenzie (in what is now central Montana), the expedition even witnessed a week-long bloody battle between the Blackfoot and Assiniboin tribes. Bodmer painted while Maximilian joined in on the side of the Blackfoot tribe. (The Blackfoot won; some of the tribesmen attributed their survival to the magical strength of Bodmer's paintings.)

Besides the Indian recorders, there were other early-19th-century painters of American subjects whose work Warner has. The Gulf States collection includes 27 works by the so-called Hudson River School artists Alfred Bierstadt, Frederick Church, Thomas Cole, Asher Durand and others. Like the western artists, they also painted on location. But instead of natives and their lifestyles, they recorded the vanishing wilderness.

Take one painting from the Gulf States collection, "The Falls of Kaaterskil," done by Thomas Cole in 1826. The scene depicts a landscape somewhere in New York's then-remote Catskill Mountains. If you look hard, you can see a lone, symbolic Indian smack in the middle of the canvas.

How has the marketplace valued these early American artists? Not consistently. The Indian recorders have always been priced fairly low—which was fine for Warner. In 1970, for example, he went on a Charles Bird King binge and bought 18 of his works, paying no more than $20,000 apiece. The top price ever paid for a King is $385,000, at Sotheby's in May.

Works by the Hudson River artists, however, neglected for years, have come into favor in the last decade. Paintings by Bierstadt, Cole and Church now regularly fetch over $1 million.

And what of the Remingtons and Russells? Their bronco-busting paintings and sculptures dropped steeply after 1982, when Texas oil money went out of the art market. But they have recently made a comeback. A Remington painting sold for $4.7 million last year at Sotheby's—a record for the artist.

Faces
Behind the Figures

Edited by Jason Zweig

Epi-logue?

After launching the wildly successful Epilady hair removal device in the U.S. in 1987, the sisters Krok may not be facing so bright a future.

Sharon, Arlene, Bernice and Loren Krok, who range in age from 25 to 32 and were born in South Africa, brilliantly marketed Epilady, a hand-held gizmo with a rotating coil that removes hair from legs by yanking it out by the root. Then, in a frenzy of line extension, Epi Products came out with EpiSauna, EpiPed and a host of other Epi items that promise to do everything from pampering tired feet to hydrating dry skin to reducing the dreaded appearance of cellulite. By last year annual sales at privately held Epi Products USA, Inc. were believed to be about $200 million.

One of the latest Epi products, a tooth whitener called EpiSmile, got off to a fast start but is already causing the company problems. Priced at $12 for a 4-ounce pump (versus about $2 for a comparable-size pump of Crest), EpiSmile is sold at better department stores alongside the $89 (retail) Epilady. The company has drawn criticism for adorning each elegant white tube with a seal of approval from something called the American Society for Dental Aesthetics, an outfit created by New York dentist Irwin Smigel—who also happens to be the fellow who formulated EpiSmile. The American Dental Association is less enthusiastic. In a statement, the ADA says studies show EpiSmile contains chemical ingredients that may temporarily damage soft oral tissues, corrode the pulp of teeth and exacerbate the effect of any existing carcinogens in the mouth. The Kroks insist EpiSmile is safe, and they say the ASDA seal has been dropped.

Sharon, Arlene, Loren and Bernice Krok
EpiSmile is drawing frowns.

Meanwhile, few of Epi Products' other line extensions have really caught on, and sales of the original Epilady hair removal device are slipping. Late last year the New York State Attorney General forced Epi Products to stop making claims that Epilady is painless to use and to carry a warning that it may cause ingrown hairs, which can lead to infection. Stores have returned more and more Epilady devices unsold. In March the Krok sisters laid off a third of their corporate staff. On another front, a former business partner, Patricia Jones, is suing Epi to get a 20% stake in the company. Epi denies any wrongdoing, including the allegation that its parent company, Epy International A.G. of Liechtenstein, is withdrawing millions of dollars in "royalties" from Epi to duck U.S. taxes.

Ouch!—**Carolyn Torcellini Geer**

The adventures of Captain Kirk

In a summer of strong box office performance, Kirk Kerkorian's MGM/UA does not have a single movie among the 45 top-grossing films. In fact, the biggest thriller on MGM/UA's schedule this year is likely to be a civil trial forcing Kerkorian to defend himself against claims that he took unfair advantage of minority shareholders back in 1985 and 1986.

Expected to begin this month, the trial should draw a parade of celebrity participants, including plaintiff Bella Abzug, the former New York congresswoman, who is suing on behalf of her late husband's estate. Featured among the defendants: such past or present MGM/UA directors as Dinah Shore, Art Linkletter and former Secretary of State Alexander M. Haig Jr.

The dispute dates to 1985, when Ted Turner agreed to buy MGM/UA Entertainment Co. for $29 a share and concurrently to resell the United Artists unit to Kerkorian's Tracinda Corp. for $9 a share. Kerkorian gave former MGM/UA shareholders the chance to buy a piece of United Artists at the time, but few did.

According to the Abzug lawsuit (consolidated with another class action for the trial), Kerkorian concealed UA's true value and discouraged minority shareholders from participating in the stock offering, while he increased his own stake from 50.1% to nearly 80% at a bargain

James Smeal/Ron Galella

MGM/UA's Kirk Kerkorian
Not a hit in sight, except his trial.

price. The MGM/UA directors allegedly failed to fulfill their fiduciary duties to shareholders by rubberstamping Kerkorian's plan. The plaintiffs' lawyers are seeking up to $220 million in compensatory damages because they claim UA stock was worth $17 to $20 a share—not $9 a share—when Kerkorian added 17 million shares to his holdings in 1986. (Later that year UA repurchased the MGM name and became the MGM/UA entity controlled by Kerkorian today.)

Kerkorian's lawyers say the lawsuits amount to "Monday-morning quarterbacking." They insist the UA offering was part of the overall transaction with Turner, which was handsomely priced.

Whatever happens in court, Kerkorian, now 73, has other disappointments. Last year he agreed to sell MGM/UA to Australia's Qintex Group, but Qintex went into receivership. His latest buyer, Pathe Communications Corp., missed its June deadline to acquire MGM/UA for $1.2 billion. By agreeing to pay another $91.5 million, Pathe has a new tender offer that runs until October, but a lot of people will be surprised if Pathe can close the deal.—**Kathryn Harris**

Kelly's green

Already a wealthy man, Chicago's Donald P. Kelly is likely to make approximately $30 million more before long. That's the profit he is expected to make, before taxes, by selling his 3% stake in Beatrice Co. to ConAgra, Inc., the company that agreed in June to buy Beatrice for $1.3 billion.

Where is he going to invest the proceeds? Keep an eye on Envirodyne Industries, the Oak Brook, Ill.-based maker of drinking straws, sausage casings and baby-wipe packages that Kelly bought in a leveraged buyout with Salomon Brothers a year ago for $800 million.

Laden with more than $700 million in long-term debt, Envirodyne could use some quick cash. That means Kelly may be able to increase his current 4% equity stake in Envirodyne on the cheap.

Not only does Kelly own some current 4% of Envirodyne's equity, but his limited partnership has bought $12 million (face amount) of Envirodyne junk, probably buying much of it at about 80 cents on the dollar.

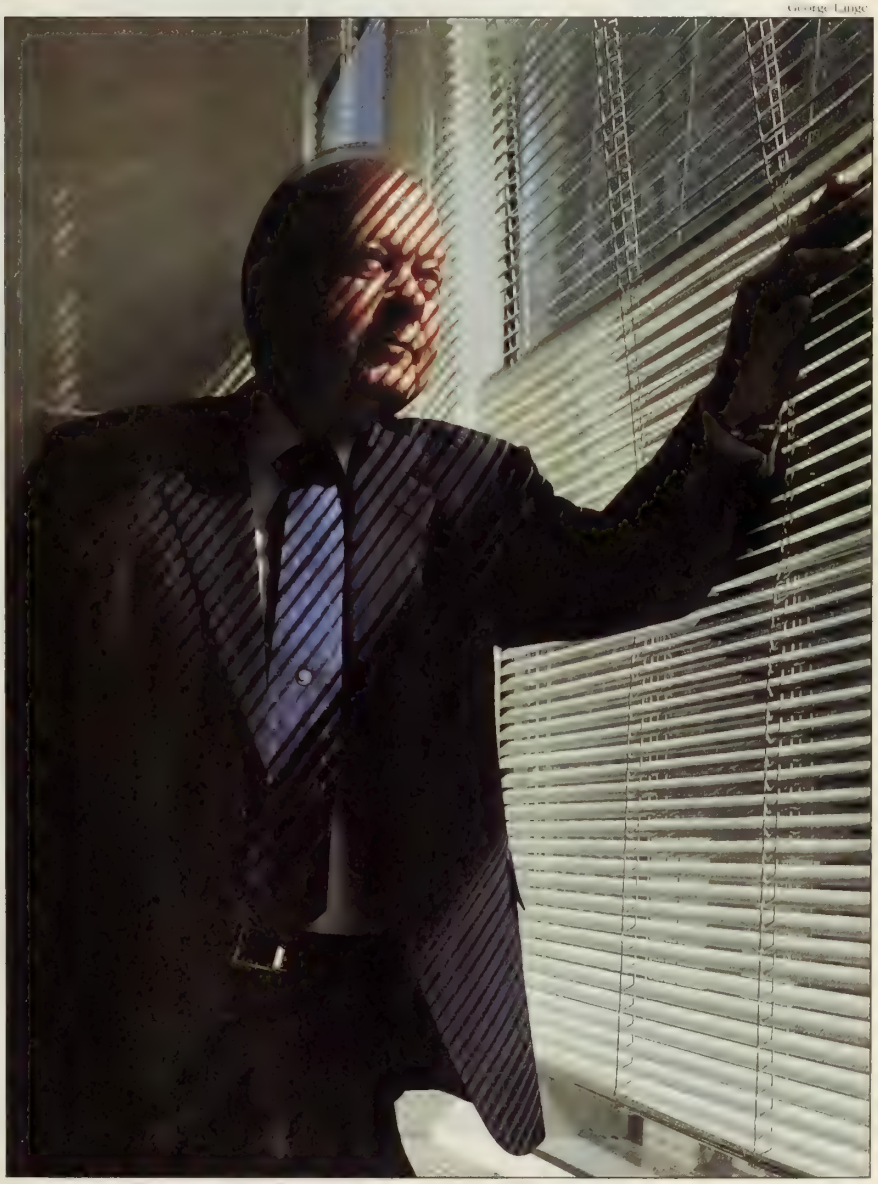
The bonds' bulls argue that if Kelly injects more equity money into Envirodyne, the company could use the proceeds to buy back some of its debt, thereby increasing the value of the junk left outstanding.

Thus Kelly would be helping himself by helping himself to more Envirodyne shares.

It was Kelly, of course, who led a $6.2 billion hostile leveraged buyout of Beatrice back in 1986. Selling off Beatrice's pieces—including International Playtex, Tropicana and Avis—Kelly made a handsome profit for himself and others and helped create the brand-name takeover frenzy that swept Wall Street in the latter half of the 1980s.

Watch for Kelly now to pioneer the drive to re-equitize.

George Lange



Envirodyne Chairman Donald P. Kelly
Ready to buck up his bonds?

Did you know that 28,000 Vision subscribers own a sports car?

With its 200,000 subscribers, Vision is the most powerful medium for communicating with Latin America's élite.

VISION
LA REVISTA INTERAMERICANA

You have to have it.

Source: INRA - Vision Readers' Profile. December, 1989.

The Forbes Wall Street Review

By Eric S. Hardy

"Stock prices should go higher not because earnings are great but because the market thrives on lower interest rates," says John D. Connolly, chief investment strategist at Dean Witter. Connolly believes interest rates will be lowered by a higher U.S. savings rate and reduced credit demand. As a result, he expects the yield of the S&P 500, currently at 3.4%, to soon decline to around 3%, putting the Dow at about 3300.

Although the housing market is showing no signs of recovery, Robert Curran, who follows the industry for Merrill Lynch, is recommending some stocks that are peripherally involved in the housing business. He likes Lowe's (a retailer that sells home-building supplies) and PPG Industries, which makes glass for both the automotive and housing markets.

Utility and natural gas stocks are often bought by risk-averse investors seeking nice yields and relatively steady prices. Nevertheless, two of the most volatile stocks during the past two weeks were in these industries. Contel (a telephone utility) shot up 39% when it agreed to merge with GTE. Natural gas distributor Panhandle Eastern dropped 23% because of speculation that it would "review" its dividend policy at the board meeting scheduled for late July. The stock currently has a double-digit yield, but there's a good chance the $2 annual payout will be reduced.

The Best Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Contel	35⅛	39%	21	7,770	2.5
General Instrument	46⅛	29	15	9,128	6.7
TJX Cos	16¼	25	NM	2,602	0.8
McDonnell Douglas	43⅝	22	33	2,372	2.2
Acuson	46¼	20	27	765	1.3

The Worst Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Computer Assoc Intl	10¼	–34%	12	5,815	1.1
Panhandle Eastern	18⅞	–23	21	9,874	2.4
Mentor Graphics	17	–23	14	11,571	2.2
TCBY Enterprises	14⅝	–23	13	5,248	1.8
Signet Banking	18¾	–19	4	1,224	3.0

Closeup on the Market

Index or investment	Price	2-week change
Wilshire index 6,000 stocks, capitalization weighted	3,488.21	2.1%
Wilshire index 6,000 stocks, equal weighted	22.02	1.0
Dow Jones industrials 30 stocks, divisor-adjusted price average	2,969.80	3.2
S&P 500 Capitalization weighted cross section, major stocks	365.44	2.2
NYSE Capitalization weighted, all listed common stocks	199.32	2.1
Amex Capitalization weighted total return: stocks, warrants	362.23	1.0
Nasdaq Capitalization weighted, all issues except warrants	467.17	1.5
Amex international market index Capitalization weighted, 50 largest ADRs	330.39	3.5

Index or investment	Price or rate	2-week change
Europe, Australia, New Zealand and Far East[4] (EAFE) a dollar denominated capitalization weighted index	930.40	2.3%
Institutional[5] Approximately 200 stocks with high institutional ownership	119.59	1.7
Individual[5] Approximately 200 stocks with low institutional ownership	106.19	0.5
Russell 2000 index 2000 stocks with small market values, capitalization weighted	169.43	0.6
Gold[6] (composite quote of 6 major dealers)	$358.30	1.0
Yen[6] (per $U.S.)	147.50	–3.7
Commodity index[6] (CRB futures index, 1967 = 100)	233.55	–1.0
Oil[6] (W Texas Intermediate)	$18.45	7.6
T bills[6] (90 days)	7.65%	–8 basis points[7]
Broker loan rate[6]	9.25%	unchanged

Note: All data for periods ending 7/12/90. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. Stocks listed above have market capitalizations of $500 million or more. [1]Capitalization weighted, prepared by Wilshire Associates, Santa Monica, Calif. [2]Average daily volume over a 2-week period. [3]Average daily volume over the last 2 weeks, divided by the average daily volume over the preceding 3 months. [4]Morgan Stanley Capital International Perspective. [5]For period ending 7/13/90. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. [6]Knight-Ridder Financial Information. [7]A basis point is equal to one-hundredth of a percentage point. NM: Not meaningful.

New Issues Review

By Robert Balancia

The biggest[1]

Company/business	Exchange	Offer date	Offer price	Recent price	Offering ($mil)	Lead underwriter	Performance to date absolute	Performance to date rel to mkt[2]
Transatlantic Holdings/fire, marine ins	N	6/15/90	27	27 ¾	$157	Goldman Sachs	3%	104%
Safeway/supermarkets	N	4/25/90	11¼	14 ⅜	90	Goldman Sachs	27	119
Fingerhut/mail order catalog	N	4/25/90	16½	21 ¾	83	Smith Barney	32	122
Pool Energy Svcs/oilfield svcs	O	4/17/90	10¼	12 ⅜	82	Shearson Lehman	21	113
RMI Titanium/titanium prods	N	4/12/90	12½	11 ¼	75	First Boston	–10	84
Chiles Offshore/oilfield svcs	A	5/24/90	14½	11 ⅜	73	Bear Stearns	–21	79
Mid-Am Waste Sys/waste mgmt svcs	O	5/18/90	24	38 ⅝	72	Alex Brown & Sons	61	159
Horsehead Res Develop/metals	O	6/29/90	14½	18	47	Kidder Peabody	24	124
Granite Construction/construction	O	4/20/90	17	23 ¾	43	Smith Barney	40	131
Mr Coffee/mfr coffeemakers	O	5/31/90	10	14 ⅝	40	Alex Brown & Sons	47	148

Performance Update

In the past 12 months, underwriters of new issues raised more money, $472 million, for oil and gas explorers than for any other industry. Although it is a far cry from the frenzied underwriting of energy stocks during the late 1970s and early 1980s, it does signal a renewed interest in this sector. During the past quarter two of the largest new issues were oilfield service firms. The largest is Pool Energy Services of Houston, an $82 million deal underwritten by Shearson Lehman.

Waste disposal is another hot area. Two stocks in this sector, Mid-American Waste Systems and Sanifill, were among the best-performing new issues of the past quarter. Both were underwritten by Alex. Brown & Sons.

Safeway Stores was the second-largest IPO during the quarter. It had been taken private by Kohlberg Kravis Roberts in 1986. At the time of its LBO Safeway had revenues of $20.3 billion and 2,284 stores. Safeway sold assets to pay for its buyout. It now has 1,117 stores and revenues of $14.3 billion.

Newark N.J.-based Securities Data Co., the firm that provided the information in the accompanying tables, reports that the amount of money raised in the second quarter (excluding small offerings; see footnote) increased from $1 billion in 1989 to $1.6 billion in 1990.

The best[1]

Company/business	Offer price	Offering ($mil)	Lead underwriter	Performance to date absolute	Performance to date rel to mkt[2]
Sanifill/waste mgmt svcs	9½	$19	Alex Brown & Sons	113%	199%
Sullivan Dental Prods/dental prods	10	10	Dain Bosworth	88	178
Fleer/confection goods	15	26	Smith Barney	70	172
Mid-Am Waste/waste mgmt svcs	24	72	Alex Brown & Sons	61	159
RasterOps/imaging prods	12	22	Robertson Stephens	58	152

The worst[1]

Company/business	Offer price	Offering ($mil)	Lead underwriter	Performance to date absolute	Performance to date rel to mkt[2]
Gensia Pharm/pharmaceuticals	11	$31	Alex Brown & Sons	–25%	77%
Immune Response/med research	7	15	Dillon Read	–23	72
Curragh Resources/mining	10	25	Morgan Stanley	–23	78
Chiles Offshore/oilfield svcs	14½	73	Bear Stearns	–22	79
Wahlco Environ Sys/filter prods	13	23	Prudential Bache	–12	82

The most active investment bankers[3]

Underwriter	Total offerings	Total raised ($mil)
Goldman Sachs	13	$1,237
Alex Brown & Sons	23	580
First Boston	6	509
Lehman Brothers	6	444
Morgan Stanley	8	362

Industries going public[3]

Industry	Total offerings	Total raised ($mil)
Oil & gas exploration	5	$472
Magazine publishing	1	420
Typewriters	1	252
Computer systems	7	224
Audio records	1	224

Notes: Initial public offerings of common equities with offer date of 4/1/90 to 6/30/90, offering price of $2.50 or more and offering value of $5 million or more. Closed-end funds, limited partnerships, and ADS (American Depositary Shares) of corporations already traded in foreign countries are excluded, as are REITS and spinoffs. [1]Last quarter. [2]The ending value of $100 invested in the stock, divided by the ending value of $1 invested in the market. [3]Latest 12 months. Source: Securities Data Co.

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Statistical Spotlight

Over long enough periods, buying companies cheaply in relation to their earning power has been a good strategy in the U.S. How does it work abroad?

Taking low P/E global

By Eric Hardy

LOW-PRICE/EARNINGS investing—the strategy of buying stocks trading at relatively low multiples of their earnings per share—is an old and proven technique in the U.S. Several studies conducted by FORBES columnist David Dreman have shown that this approach beats the market over long periods, although there are stretches when low-P/E stocks lose out to growth stocks. How do low-P/E stocks do in other countries? That is the question Sandor Cseh (pronounced "Shay") addressed in the early 1980s at Provident Capital Management in Philadelphia. His conclusion: The strategy would work better overseas than it does here.

Five years ago Provident, a subsidiary of PNC Financial, gave Cseh a chance to prove his theories by putting him in charge of a portfolio of foreign stocks, now $150 million managed for pension funds and other clients. Cseh has proved himself with a compound annual return since mid-1985 of 33% on that portfolio, points ahead of the 27% for Morgan Stanley's international stock index. (Both returns reflect price changes, dividends and currency fluctuations for U.S. investors.) Also, Provident will be launching an international stock fund this fall that Cseh will manage.

Cseh is steadfastly loyal to his strategy, selling when a company's multiple climbs above the average for that company's industry in its country. Thus, Nestlé is compared with other Swiss food stocks, Bayer with other German chemicals. In mid-June, when rumors surfaced that Philip Morris was interested in Jacobs Suchard, the Swiss candy and coffee firm, Cseh decided to unload part of his Suchard position because its P/E got to 14. Explains Cseh: "We don't wait for takeovers that may or may not materialize." As it turned out, soon after Philip Morris announced a plan to acquire most of Suchard. Any regrets? No. In the event, Cseh's clients got $5,700 a share, only $350 less than the acquisition price.

Born in Hungary 44 years ago, Cseh has lived in Germany, Austria and Venezuela, a good background for someone with investments in 14 nations. Lately his formulas have been leading him to food companies, including Hillsdown Holdings and Nestlé; banks, including Banco Popular Español in Spain and Bank of Scotland in the U.K.; and textile maker Winsor Industrial in Hong Kong *(see table)*.

"I think the whole U.K. market is very cheap," says Cseh (average P/E: 11.8), but that's not as important to him as whether a particular U.K. stock has a P/E lower than the U.K. average. Thus, his holdings include Maruichi Steel Tube at a multiple of 25, high by most countries' standards but cheap for Japan. International diversification is key to keeping the volatility down. "We don't want our performance to be feast one year and famine the next," Cseh says.

Computerized databases from Datastream in London and Nomura Capital in Osaka are important to Cseh, but he prefers, where possible, to visit a company in person. Cseh spends 10% of his time on the road. "Except for our core price/earnings analysis, there is usually very little correlation between what looks good in one country and what looks good in another," he points out. "My visits let me see a country's intangibles." ■

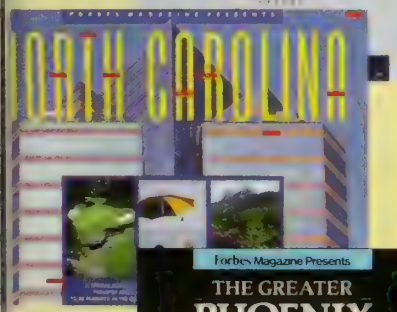
Relatively cheap

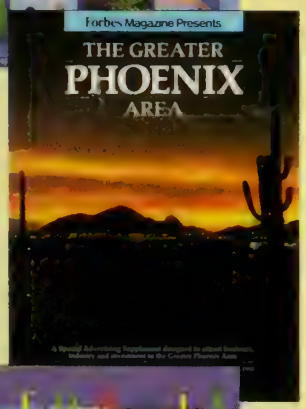
Price/earnings multiples of the stocks in Provident Capital Management's overseas portfolio aren't all low by U.S. standards, but they are all low by the standards of the home-country stock exchange.

Company/business	Country	Price	Price/earnings ratio	Country average P/E
Banco Popular Español/banking	Spain	94¾	7.1	12.6
Bank of Scotland/banking	UK	2⅞	5.2	11.8
Bayer/chemicals	Germany	177¾	7.8	18.1
Commerzbank/banking	Germany	180½	11.8	18.1
GAN/insurance	France	360⅞	7.4	12.7
Glynwed International/metals	UK	5⅛	8.5	11.8
Hepworth/building materials	UK	5⅛	8.5	11.8
Hillsdown Holdings/foods	UK	5	8.7	11.8
Inchcape/multicompany	Singapore	2⅞	11.1	20.6
Maruichi Steel Tube/steel	Japan	15⅛	24.9	41.1
Nestlé/foods	Switzerland	6,159½	11.8	14.9
Scapa Group/industrial machinery	UK	3	9.6	11.8
VNU/publishing	Netherlands	56⅜	8.4	9.4
Western Mining/metals	Australia	4	10.0	12.4
Winsor Industrial/textiles	Hong Kong	1⅛	7.1	10.8

Prices as of July 12, 1990, converted to U.S. dollars.
Sources: Provident Capital Management; Morgan Stanley Capital International Perspective.

WHAT DO THESE CITIES & STATES HAVE IN COMMON IN 1990?





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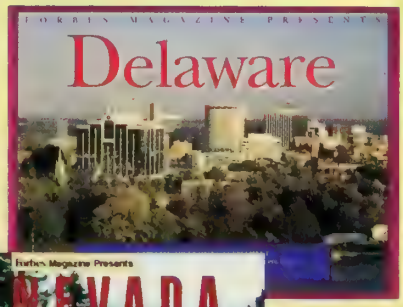
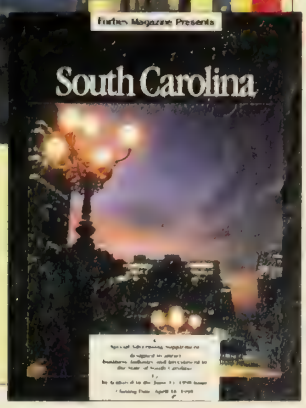




General Motors Acceptance Corp.'s money market account offers high yields to investors and a low cost of money to GMAC.

Eliminating the middleman

By Richard Phalon

MOVE OVER, John Bogle. A new player in the money market business has costs even lower than those at your Vanguard Group. That player is General Motors, which has recently opened its employees-only money market account to GM shareholders. At last count the GM account was paying an effective 8.3% a year—on a par with the yield on Vanguard's Money Market Fund-Prime Portfolio and about a third of a point ahead of the average money market fund.

The General Motors account pays a net yield to savers, with the company picking up all operating expenses. Those expenses are low, and that is key to GM's ability to pay high rates to savers while keeping its borrowing costs to a minimum.

For the record, the car company notes that its ready-cash account is not a mutual fund and that it is not in the fund business. But the account, consisting of "variable rate demand notes" of General Motors Acceptance Corp., GM's financing subsidiary, competes with money funds head on. GM shareholders can open the account with as little as $250, write checks against it and make telephone transfers to their banks.

The product has been available to GM employees since 1985, and is now providing $2.9 billion of funds for GMAC. This spring GM began pitching the account to its shareholders.

What's next? The addition of discount brokerage and a family of mutual funds to your favorite Cadillac dealer's showroom? John Bogle, chairman of the Vanguard Group, thinks such a move may well be in the cards.

"There are big profits in this [mutual fund] industry, and I think the 1990s is going to be the time when a lot of other people will come in and try to make them."

GMAC Vice President Richard Clout denies having any such plans. "This is not a money market fund," he says. "We are not going to stand on the street corner, trying to compete with the money market funds, and there is absolutely no way we will take it to the public at large." Even so, with 525,000 U.S. employees and over 700,000 shareholders, GM is catering to a large audience already.

Yields on Vanguard's money funds are among the best in the fund business precisely because Vanguard's overhead costs are so low. Indeed, the 0.28% annual expense ratio on Vanguard's taxable money funds is among the lowest for retail money funds, not counting several funds whose costs are being temporarily absorbed by their sponsors.

GMAC doesn't publish an expense ratio, because it is not running a fund. Rather, it announces a net yield (rese weekly) on the demand note, and tha rate is what the investor keeps. Clou won't say what it costs him to run th money market account, but he say the overhead GMAC is absorbing o this account is considerably lowe than Vanguard's.

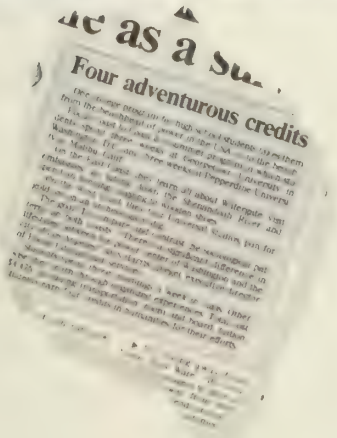
How can GMAC get its costs lowe than Vanguard's? For one thing, GMA hasn't bought any newspaper ads fo the money account. And its direct mail pitches go to people who ar presold—namely employees, retiree and shareholders. Finally, despite th low minimum, it averages a fairl high $25,000 balance per customer Costs include salaries for a staff o seven, plus fees paid to Northern Trust Co. of Chicago for clearing checks and handling the paperwork There is no portfolio manager to pay.

For the week of July 9-15 the GMAC note was paying a nominal rate o 7.97%, which translates into a gener ous 8.3% effective annual yield. Tha beats all but a handful of money mar ket funds. But, insists Clout: "This is not an employee benefit program." Add in all the administrative costs, he says, and the variable rate note raises money for GMAC for a tad less than its much larger commercial paper program (recent 30-day discount rate 8.15%, for an effective annual 8.64%). The explanation, of course, is that by selling its own paper GM eliminates the Wall Street middlemen.

While the yield on the GMAC account is admirable, one question remains for GM shareholders assessing this nonfund fund as an investment. These are not federally guaranteed notes. GMAC's paper carries an A-1+ credit rating, the highest available. But financing automobiles is not without risk; delinquency and repossession rates have been rising over the last several years.

In a money market fund from Vanguard or Dreyfus or whomever, you get some paper of slightly lower individual credit quality, but you also get diversification. The ordinary money market funds invest in a mix of short-term securities including certificates of deposit, bankers' acceptances and corporate paper. Still, any recession severe enough to put GM paper at risk would probably break most of the banks and other corporations as well. There is no absolute safety in this world of ours; GMAC is probably as close as you can get. ■

WHEN IT COMES TO EDUCATION, WISE PARENTS CUT CLASSES.



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FORBES covers the highest paid entertainers so thoroughly that it receives a great deal of media attention. Soon after the 1989 Richest Entertainers issue came out, WABC's Eyewitness News television program quoted this issue. Millions of viewers discovered who FORBES had revealed as the top paid entertainers. It's this type o media hype that draws attentio to FORBES and enhances the valu of ads in the issue.

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Issue date:	October 1, 1990
Closing date:	August 27, 1990 (4-color pages)
	September 4, 1990 (B/W & 2-color pages)

The growing popularity of put bonds reflects their benefits both for investors and for borrowers. Here's how they work.

HAVING IT BOTH WAYS

By Ben Weberman

Put bonds issued by financial and industrial corporations are an investment means of having your cake and eating it, too.

Given the current interest rate outlook, it's a smart idea to be considering them right now. Particularly if you buy the scenario that short-term rates will continue to ease over the next 12 months. If that happens, buying put bonds will lock you in at a nice spread over the long-term Treasurys—typically up to 100 basis points. More important, if inflation reheats and interest rates rise, you won't be stuck with an unattractive, below-market yield.

What's a put bond? With most conventional bonds, the issuer retains the right to redeem or call the bond long before maturity if interest rates fall. That way, the company can save borrowing costs by refinancing at the lower rates. But there's no out for the investor who's holding a conventional bond if interest rates rise: He's stuck with the lower yield until maturity. So it's heads the issuer wins, tails the investor loses.

Put bonds offer a hedge against that. They give the investor the option of returning or putting the bonds back to the company at specified intervals prior to maturity. If interest rates rise, the proceeds can then be reinvested at the prevailing higher yields.

These bonds typically yield slightly less than conventional issues. But the difference is tiny—usually no more than 25 basis points. So for the investor it's worth the lower return to be able to bail out without loss if market conditions change.

The put issuer benefits, too, since borrowing costs are lower than with a conventional bond, at least to begin with. And nothing warms the heart of a chief financial officer more than getting good marks from management for keeping interest costs down.

Here's the way a typical put bond is structured, according to traders in the put bond department of First Boston Corp.:

Last year General Motors Acceptance Corp. raised almost a quarter of its $4 billion in total financing for that year in puttable bonds. In this case the company was willing to offer the put to save some interest costs. Under current market conditions, an offering of ten-year, noncallable AA-rated GMAC paper would yield 9⅜%. That's some 85 basis points more than the market rate for ten-year Treasury bonds.

But, instead of doing the straight ten-year, noncallable, nonputtable debenture, GMAC provided investors with the option of putting its newly issued 8⅝s with final maturity in 1999 back to the company at par in 1994. By doing so, GMAC was able to sell bonds for just 30 basis points over the ten-year Treasurys instead of 85 basis points, thereby saving more than a half percent a year for at least five years—and possibly for ten years if interest rates don't rise and the put option isn't exercised in 1994.

For the investor, the 8.79% yield to final maturity is about 30 basis points more than the ten-year Treasurys. But the 9.10% yield to the first put is, by as much as 60 basis points, more than the four-year Treasury bonds. The real benefit: If interest rates rise sharply over the next half-decade, it won't be necessary to wait until redemption of the issue at maturity in the year 1999 to reinvest in higher-yielding paper.

The standard formula for put bonds is for maturity in 10 years but puttable in 5. But there's a wide variety of offerings available, according to First Boston. Some companies permit their securities to be put after 3 years, some permit 3, 4 and 5. There are 20-year bonds puttable at 10 years and even 30-year bonds puttable at 10 years. Some issues are due in 12, 13, 14 or 15 years and carry 3-, 4-, 5-year puts.

Multi-put issues are on the market, too. One GMAC issue, for example, has a 20-year maturity with options to put the bond back in 5, 10 or 15 years. This AA-rated, 8⅞% bond has a yield to final maturity of 8.79%. The yield to the first put date is 8.67%.

Among other recent issues: AA-rated Associates Corp. did a $250 million, 9⅛%, ten-year debenture puttable in four years. The issue sold 50 basis points over the four-year Treasury. It currently trades at $101.50 and yields 8.65% to the first put.

If you want even more spread over the Treasury, consider an issue like the BBB-rated 9% Hertz Corp. notes. The 19-year security is puttable in 10 years. Those terms give the offering a spread of 110 basis points over the Treasury. It currently trades at $97 to yield 9.50%.

I'd avoid an issue like the recent AAA-quality 8.7% General Electric Capital Corp. due in 13 years and puttable in 4 years. The offering was priced at a slight discount to yield 8.74% to the first put. That's barely 20 basis points over the 4-year Treasury. With so little difference, peace of mind should always dictate a Treasury over a corporate—even with a put option. Don't forget that interest on Treasurys is not subject to state income taxes, further narrowing the difference. ■

Ben Weberman is a contributing editor of FORBES magazine.

Even at Dow 3000 you can find good growth stocks without paying through the nose. Where? Look between the cracks.

GROWTH OR VALUE?

By Kenneth L. Fisher

Too many folks posture themselves as either growth or value buyers—as if the two were separable. They aren't. History clearly demonstrates that stocks with good growth potential are worth paying up a bit for. The problem comes when you pay too much for a given level of growth or assume future growth that never materializes.

Valuing growth is easier than forecasting it. There is an old growth-stock investors' saw that runs, "Buy 'em at half their growth rate and sell 'em at 1.5 times their growth rate." It's an amazing value formula. It means: If you expect a firm to grow at 20% annually, you get a good value if you buy at a P/E of 10 (half of 20). Then you hold until the stock gets fashionable and sells at a P/E of 30 (1.5 times 20). Adding growth in earnings to the P/E expansion can allow for a very big gain.

Watch out, though, for excessively high growth rates. They are almost always unsustainable. I never invest in firms that try to grow at more than 30% per year. I prefer a 20% growth plan, or even a 15% or 10% growth plan, properly priced to a 30% growth plan—because with extremely high growth goals you take on the double risk that both the growth does not occur and the company actually gets into serious difficulty trying to stretch beyond its capabilities.

For example, if a firm tries to grow at 35% a year, with normal 15% attrition, after a year half the employees are new and don't really know the lay of the land. After five years, 90% of the workers are new. With so many new employees the odds are much higher that some are deadwood, or worse. Problems in business tend to pop out all at once, and fast-growing firms that are more oriented toward hiring employees than keeping an eye on them often don't spot problem employees until after a crisis arises. It takes a phenomenal management to keep things on track when growth is extremely high and so many employees are new.

However, if you pick real growers and don't overpay, you can hardly lose. Even if the P/E never rises above 10, a 20% growth rate virtually ensures the stock will double within four years. If the P/E does rise to 150% of growth, you'd have a stock that would septuple. This formula works because it ties the P/E to growth rates and never lets you pay extremely high P/Es. If anything, the formula is too cheap. There are darn few firms that grow 30% annually, and even for those few, the formula lets you pay a P/E of only 15. That hardly seems like overpaying with the Dow at 3000 and with the whole market selling at a 15-times-earnings level.

But that's the beauty of the formula: It prevents you from overpaying for growth. The formula also protects its rigorous user in times like 1972 and 1983, when the world goes growth-crazy. It forces you out. With it you would never have held on to those 40-times-earnings gee-whizzers, whether they were 1972's quality big-cap variety or 1983's explosive high-tech marvels.

Fine, but can you find suitable stocks in a market that sells at 3000 on the Dow? Yes. First, note that smaller capitalization stocks are still nicely below their peaks of last fall. Second, you need to find a way to look between the cracks via some additional tools. Partly because everyone else is looking at the world through the eyes of P/Es, when I'm looking for growth bargains I like to use my old friend the price/sales ratio. For example, if you expect a firm to grow at 10% per year, you double that number and want to buy it at 20% of its annual revenues. A 20% grower you would buy at 40% of annual sales, and a 30% grower at 60% of revenue.

This helps identify companies that due to one-time events aren't making any profit at all right now, and seem to have no P/E. Or they may be just barely breaking even and have a P/E of 100, or 1,000. Sometimes they even have great cash flow but because of funny-money modern accounting don't appear to have earnings. This apparent lack of earnings happens from time to time in most young growth companies, sometimes after they've previously tried to grow too fast and suffered from internal hiccups.

Here, then, are three stocks, appropriately priced but hard to spot as reasonably priced growth stocks because the P/Es are deceptive: *sci Systems* (11, o-t-c) should grow at about 10% per year, as its low-cost production technology lets it pick up the spillover circuit board stuffing of major electronics firms—and despite its P/E of 50, it is priced at 20% of revenue with a 13% cash flow yield.

Western Digital (14) also has low-cost production and a tough, lean management, which insures it a place in the faster-growing memory market—maybe 20% growth, priced at 37% of sales, with a cash flow yield of 17%. Finally, *Interface* (19, o-t-c) dominates the fast-growing carpet tile business and via strong demand and good marketing should sustain its historic 30% revenue growth. It sells at 52% of revenue, with a 14% cash flow yield. ■

Kenneth L. Fisher is a Woodside, Calif.-based money manager. He has written two books: The Wall Street Waltz *and* Super Stocks.

Nobody much cares about low-risk investing—until we get another October Massacre. Here's a reminder that you can get good results without taking big risks.

APPEL'S APPEAL

By Mark Hulbert

Two bloody October massacres have punctuated the eight-year bull market, reminding us that minimizing losses in down markets is as important as maximizing profits in up markets. So we should pay attention to how much risk an investment adviser takes as well as to how well he does when the market is rising. *Systems & Forecasts*, edited by Gerald Appel, is in first place for risk-adjusted performance since 1983 among all newsletters I follow. First on a risk-adjusted basis? This simply means that every other newsletter which made more than Appel's did so with an even greater amount of volatility (the academics' proxy for risk).

This fellow who has done well without taking big risks is a former psychoanalyst. He's not big on self-promotion, as many of his competitors are. When he uncharacteristically took space in his newsletter earlier this year to mention his high *Hulbert Financial Digest* ranking, for example, he apologized and wrote that he would revert to being a "nice nerd."

Low-risk approaches like Appel's, though effective, are not generally understood. Thus over the last 7½ years Appel made about two-thirds as much as the S&P 500 (158% vs. 240%). But his portfolio was only half as risky as the market as a whole. Many investors and journalists simply grouped his newsletter along with all the others that didn't beat the market. They didn't realize that if you can make two-thirds as much as the market with only half the risk, you have performed very well indeed.

Don't make the same mistake yourself. Taking risk into account is always important, but especially now: It is most unlikely that the next decade will be as bullish as the last. A severe bear market will come sooner or later. And when it does, the higher-risk investors—often the biggest gainers in bull markets—will be among the biggest losers.

Risk tends to be ignored in bull markets, however. As the market keeps going up, investors grow impatient with lower-risk strategies, viewing them as old-fashioned approaches that do little other than reduce profit. Only near the end of a bear market, when it's too late, do investors begin to focus on risk. During the 1980s, for example, the most intense investor focus on low-risk investing came immediately after the 1987 crash.

But Appel's low-risk approach isn't the only reason little has been written about him: Another is that he uses an intimidating amount of statistics in his approach to technical analysis. Many who otherwise might write about his methods are scared away, since all they can figure out to say about them is that they seem to work.

The inputs to Appel's stock-timing model, for example, are the NYSE Composite and the Value Line Arithmetic indexes, and the number of advances, declines, daily new highs and new lows on the NYSE. But he offers no explanation of why these inputs are more important than others, or why they should be given the particular weighting that his model gives them—except that years of research have concluded that his combination works better than any other he's found.

This may be all that has to be said, but there are some who want more. For example, Harry Browne, editor of *Harry Browne's Special Reports*, believes that "A [technical trading] rule that can't be explained in terms of the way people act shouldn't be allowed much of a claim on your thinking." Otherwise, we can't be sure it isn't so much mumbo-jumbo.

Appel might be able to make sense of his theories in terms of human behavior. As a psychoanalyst, he should be in a good position to provide it. So far, however, his newsletters haven't included any such explanation.

Fellow FORBES columnist Michael Gianturco has another view of technical analysis. He reasons that it works because, at least in part, it helps to predict the behavior of other technicians. It follows from this that it's dangerous to become too sophisticated. By so doing, Gianturco says, "You will lose touch with the mob of ordinary traders and lose your sense of which way that mob [and the market] is moving." From this perspective, the success of Appel's technical approach once again is a mystery: His theories are substantially more sophisticated than average.

In spite of these notes of caution, Appel continues to perform well. And if he continues to do so, he'll have an increasingly good rebuttal to the skeptics. What's he saying now? Though his short- to intermediate-term timing model is still bullish, as it has been since late April, Appel worries that we could be in the early stages of a major bear market and that the current rally very well may be a prelude to another "October massacre" or something similar this autumn.

Why? Hard to say on the basis of Appel's writing, but it is still sobering news coming from an adviser with as good a record as Appel's. ■

Mark Hulbert is editor of the Alexandria, Va.-based Hulbert Financial Digest. *His newest book is* The Hulbert Guide to Financial Newsletters *(Probus Publishing).*

Warren Buffett has wonderful advice for investors, but it may not be germane in today's stock market.

ROWE AS BUFFETT?

By Frederick E. Rowe Jr.

Allan Felix, the hero of Woody Allen's hilarious movie *Play It Again, Sam,* feels inadequate with women, and with good reason. His wife has just left him because she finds him both unattractive and boring.

In the movie, Allan Felix (played by Woody Allen) is constantly visited by an apparition of that legendary ladies' man, Humphrey Bogart. The apparition shares his insights with the bumbling Allan Felix. Example: "Dames are simple. I never met one that didn't understand a slap in the mouth or a slug from a .45."

If ever there was a man who knows how to buy stocks, it is Warren Buffett, the legendary chairman of Berkshire Hathaway. Buffett has been a role model for most people who take the stock market seriously. He has had a spectacular record as a stock picker. Equally important, he has been able to communicate his theories on investments in his annual reports and in numerous interviews.

Allan Felix' attempts to play Bogart are dismal failures. Finally, Felix comes to grips with his own klutzy persona and starts acting like himself, and his women problems disappear.

I feel a little like Allan Felix/Woody Allen felt about women with the stocks I have owned on the long side the past few years. I imagine that I hear Buffett's voice.

"Stocks are simple. All you do is buy shares in a great business for less than the business is intrinsically worth, with management of the highest integrity and ability. Then you own those shares forever."

Thank you, Bogart-Buffett. Actually, your investment philosophy worked beautifully for me during the 1970s. During the 1980s it stopped working. My long stocks no longer did particularly well.

Not that Warren Buffett's advice lost its validity, but times had changed. The growing institutionalization of the stock market and the proliferation of money available for leveraged buyouts altered, I believe, the sense of financial rectitude and obligation among the managements of most publicly traded companies. "The highest integrity" took a back seat to the slightly idiotic demands of institutional investors or to the opportunity to get filthy rich through a management-led leveraged buyout of shareholders. In either case, managements saw less reason to be straightforward with poor old F.E. Rowe. It thus became harder to identify true value, to identify stocks worth holding for the long term.

Institutions like earnings momentum and relative strength. The accounting profession allows for enormous creativity in the way in which earnings per share is calculated. Managements who like high share prices tip Wall Street on what they are going to report and even when they are going to charge off earnings, which they have trumped up in the first place. Companies that have earnings momentum soon enough have stock market momentum. Rather than buy these stocks and attempt to get out in time, I have found it more profitable to be patient, look for accounting nonsense, and then short those stocks.

The managements of companies with seriously undervalued shares generally found it more profitable to talk candidly with LBO artists like Henry Kravis than with their own shareholders or with someone like me. One Wall Street observer refers accurately to management-led buyouts as the ultimate in insider trading. Since I was not part of the buyout game, I had little to do but complain, watch and wait. The overleveraged buyouts of the 1980s have proved to be a fertile ground indeed for short-selling.

Back to my problems on the long side, back to the reasons acting like Warren Buffett no longer worked for me. By process of elimination I gravitated to managements that were honest but stupid. The Wall Street game of spoon-feeding analysts and smoothing or actually creating earnings per share was beyond them, as was any thought of doing an LBO. In fact, as it turns out, thinking in general was beyond the scope of many of the managements I bought. Consequently, they often didn't do a very good job of running their businesses. All of which prompts that age-old question: "Would you rather get in financial bed with a smart, slightly crooked operator, or an honest dolt?" I am still wrestling with that one.

The current economic expansion and bull market began in 1982. Stocks are by no means cheap. Time, I suspect, is on the side of the bears, so I won't worry too much about my long-side lack of success. I would continue to be careful of the banks. Names like *Barnett Banks* (30), *Chemical Banking Corp.* (25), *Fleet/Norstar Financial* (19) and *Citicorp* (22) come to mind. Employers and health care insurance companies have specifically targeted psychiatric health care costs for reduction. I expect that *Community Psychiatric* (29) will ultimately be hurt by this trend and that its long string of quarterly earnings increases will come to an end. From here on I'll stop pretending I'm Warren Buffett and act on my own instincts. ■

Frederick E. (Shad) Rowe Jr. is the general partner of Dallas' Greenbrier Partners, a hedge fund.

Americans have a Calvinist, almost masochistic urge to bewail the state of their economy. What's to wail about?

MASOCHISTIC STATISTICS

By Alan Reynolds

Every conceivable economic problem has been blamed on the U.S. budget deficit. The deficit was supposed to abort the recovery in 1983 by absorbing savings and crowding out investment. When the economy instead boomed through 1984, this was supposedly because deficits overstimulated the economy. When the dollar was strong, that was because deficits supposedly raised real interest rates. When the dollar was weak, that was because deficits were said to be inflationary.

Remember the Japanese horror story? Japanese investors would pull out of U.S. markets and the dollar would collapse unless the U.S. balanced its twin deficits. It was a good story, but the wrong country. Japanese investors bailed out of the Japanese stock and bond markets instead, sinking the yen, not the dollar.

Then there were the endless lectures from British journalists about how a tax increase in the U.S. would balance the budget, and how that would lower both the current-account deficit and U.S. interest rates. Yet the recommended Keynesian "policy mix" of a budget surplus and rapid money growth had none of the effects in the U.K. itself that are still promised for the U.S. Instead, the U.K. ended up with a current-account deficit that was larger than that of the U.S., plus the sky-high inflation and interest rates.

Today critics have switched to more nebulous claims about how a low U.S. savings rate impairs U.S. competitiveness. U.S. businessmen and investors are said to be uniquely myopic, lacking the magnificent long-term vision of, say, congressmen. American consumers are told that they must save a larger share of their current incomes. They should buy fewer cars, so manufacturers can build more auto factories.

Annual increases in manufacturing production

	U.S.	Japan	Germany
1961-70	4.1%	13.8%	5.6%
1971-80	2.8	5.9	2.1
1981-88	5.4	6.1	1.0

All of the above is hopelessly static, zero-sum accounting.

If economic growth were really just a matter of earning much more money than is consumed, then the Soviet Union—whose citizens have "saved" something like 300 billion unspendable rubles—would be doing very well indeed. But failure to consume is not, in itself, equivalent to making efficient investments in either physical or human capital.

The breast-beaters insist that our excess of imports over exports is terrible. We should, they say, be exporting more and importing less. German economist Hans-Werner Sinn sees the fallacy in this thinking. He says: "Countries take pride in being world export champions without realizing that they could equally well regard themselves as capital flight champions." That is, German and Japanese investors chose to invest more of their savings in the U.S. because the opportunities were brighter, not just because they have dollars left over from selling us cars and machinery.

The U.S. thus became more competitive in world markets for capital because the U.S. economy became more competitive in world markets for services and, yes, for manufactured goods. Economist Maurice Ernst presented the following comparisons at a recent Hudson Institute conference:

While Japanese manufacturing grew more than three times as fast as U.S. manufacturing in the 1960s, and well over twice as fast in the 1970s, the U.S. has since caught up: Growth of U.S. manufacturing output has been remarkably close to that of Japan in the 1980s.

We Americans appear to have a Calvinist, almost masochistic urge to be lectured about the profligacy of our consumers, the indolence of our workers and the wrongheadedness of our economic policies. The prolonged U.S. economic expansion of the 1980s has surely been one of the most dramatic yet least appreciated periods of prosperity in world history. Look at the numbers: Nonfarm employment is already up 22% since 1980, productivity is up 18% and real GNP is up 32%.

Much is made in the media lately about how Japan is investing more money in plant and equipment at home than the U.S. does—another alleged sign of U.S. degeneracy. This is just another maso-statistic. In a country where a square meter of land can cost what an acre costs here and other expenses are accordingly high, those Japanese capital dollars don't go very far.

It's about time Americans stopped apologizing for the magnificent revitalization of the economy—which helped force the communists to throw in the towel. We needn't tremble at carping lectures from Europeans and Japanese whose living standards remain one-third below ours. Given continued pro-growth tax policies, we may soon achieve the longest and strongest U.S. economic expansion of all time. ■

Alan Reynolds is the director of economic research for the Hudson Institute of Indianapolis, Ind.

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Streetwalker

Edited by Thomas Jaffe

Mario he rolls along

Now that GTE and Contel, the big independent telephone company and operator of cellular mobile phone systems, have announced they will merge in a stock-swap valued at more than $6 billion, what other independent wireline companies also in cellular are attractive takeover targets? Two that money manager Mario Gabelli, a leading investor in the group, particularly likes are $213 million (sales) Century Telephone Enterprises, Inc., headquartered in Monroe, La., and $170 million (sales) Lincoln Telecommunications Co., based in Lincoln, Neb.

Both stocks have run up since the GTE-Contel news broke: NYSE-listed Century recently traded at 27; Lincoln was selling for 29⅞ on the o-t-c. But if analyst Salvatore Muoio, who works for Gabelli & Co., is right, there's still plenty of upside.

In its conventional telephone business, Century operates 300,000 access lines, the majority of which are in Louisiana, Michigan, Wisconsin and Arkansas. In cellular, it has a piece of the metropolitan Detroit franchise, as well as franchises elsewhere in Michigan and in and around Shreveport, La. Net of debt, Muoio values Century at $1.48 billion, or $46.55 a share—nearly 50% higher than the current market. Insiders control some 17%.

Lincoln operates 220,000 access lines in 22 contiguous counties in southeastern Nebraska, including the city of Lincoln, the state capital. In addition, Lincoln has a small cellular operation that covers the Lincoln area and rural districts in Nebraska. Muoio values the company, net of debt, at $888 million, or $53.90 a share—80% above market.

Although Lincoln has a poison pill, Muoio thinks the Woods family, which owns around 21% of the 16.5 million shares, may be amenable to a deal that would minimize their tax exposure. (Thomas Woods Jr., the former chairman, died in December.)

Underscoring the speculation in all asset valuations, it's worth recalling that Muoio estimated Contel's private market value in a taxable deal at $60 a share; investors are valuing it at $36 or so in a tax-free stock swap with GTE. Muoio points out that on a taxable basis his $60 a share would translate to around a $48 a share. But even if you haircut his estimates on Century and Lincoln by 25%, you get private market values of $35 and $40 a share, respectively. Streetwalker's advice: Wait until the current excitement over the GTE-Contel marriage (which has been announced, not consummated) dies down, and then have a good look at this pair.

On the dole

For the last year or so the stock of Castle & Cooke, Inc. has acted like a yo-yo. In May 1989 the $2.7 billion (sales) company said it wanted to separate its Dole Food and Oceanic Properties divisions. Over the next two months the stock ran from the mid-30s to the mid-40s. But when nothing happened it backed off, falling below 27 in January. Then, in February, a new announcement: The company would spin off Dole to shareholders if it got a tax-free ruling on the transaction from the IRS. Again the stock popped, to the mid-30s. But in May the spinoff was put on hold: no IRS ruling. The stock traded down once more, to around 30.

Jim Coerfield

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tinues to run them.

Silver expects GATX to earn $3.70 a share this year, up 16%. He's looking for $4.20 in 1991. So the stock sells for a modest eight times his 1990 estimate. On assets, Silver marks aircraft to market, values the other operations conservatively and comes up, net of debt, with $47 a share (after taxes on the sale of planes), or a 50% premium to market. There are 19.1 million common shares outstanding.

Will Mickey go Western?

Under the Golden trademark, Western Publishing Group, Inc. is the largest U.S. publisher of children's storybooks. Sales for the fiscal year ended Feb. 3 dropped 10%, to $495 million, and earnings were down 28%, to $1.05 a share. Why? Because Western's hot board game product, Pictionary, went cold. In fiscal 1989 Pictionary rang up $118 million of sales; last year it accounted for just $42 million. In addition, margins declined in the Penn division, which makes paper goods such as party accessories and gift wrap as well as customized writing instruments. This year earnings should improve, but only slightly. The stock is bogged down at 17⅛ o-t-c, near its 52-week low. This frustrates people like Mario Gabelli, whose Gamco Investors owns 26%; George Soros and First Manhattan, with nearly 5% apiece; and Reich & Tang, with 6%.

But there's hope. Western Chairman Richard Bernstein, who owns over 20% of the 20.6 million fully diluted shares, may want to sell. After all, he was negotiating with Gulf & Western, now Paramount Communications, to do just that in 1988. Who might the buyer be? Perhaps Walt Disney Co.

In December 1987 Western struck a five-year deal to be the primary publisher in the U.S. of Disney books and related products with a retail price of $5 or less. (Western has several such licensing agreements.) But in July Disney announced it was starting its own juvenile trade book operation. As long as Disney intends to make a big push in publishing, some speculate, why not buy Western rather than build an operation from scratch?

In a deal, say the bulls, Western should fetch at least $30 a share, which would make for roughly a $600 million deal, easily affordable if the buyer were Disney. If you're willing to take a big risk on a speculative rumor, Western fits the bill.

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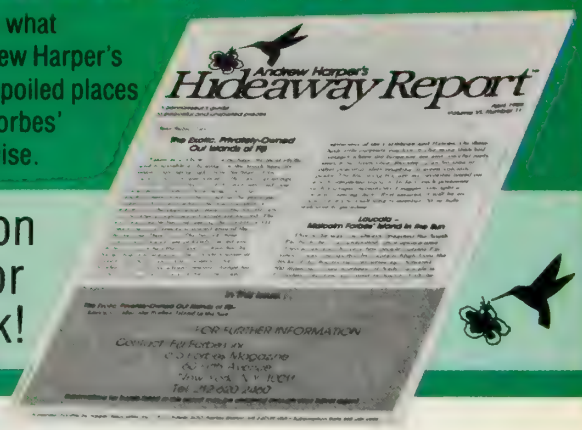

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"Taken as a whole, Fiji is perhaps the most idyllic and hospitable archipelago in the South Seas, its essence springing right from the heart of unpretentious people whose enthusiastic greetings of 'bula' are a reflection of the welcome and care extended to visitors.

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"A wide range of daytime diversions are available including top-notch sport fishing aboard a specially-designed 45-foot deepsea boat staffed with a knowledgeable captain and crew at your call. Tuna, mai-mai, snapper, jack fish and sailfish are all regularly hooked in these virgin grounds, plus an occasional black marlin. There's also superb snorkeling/scuba diving (tanks and weights provided) in the transparent offshore waters where stunning reefs harbor colorful coral heads teeming with rare tropical fish and specimen shells. . . .

"It's always satisfying to uncover an idyllic island these days that is still pretty much the way it has always been, and even nicer when you realize the owner is determined to keep it that way. Very, very special – particularly for those who want to sample a relaxing tropical lifestyle that is fast disappearing in the South Pacific . . ."

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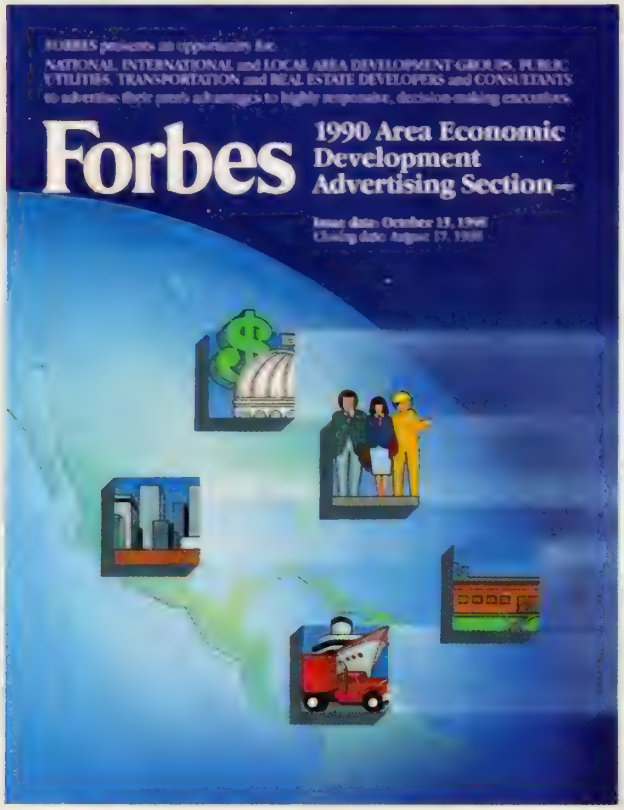
October 15, 1990 Issue



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Issue date: October 15, 1990
Closing date: August 17, 1990

Flashbacks

Edited by Dero A. Saunders

"The more things change. . . ."
Items from past issues of FORBES

;eventy years ago in FORBES

From the issue of August 7, 1920)

'So far as one can judge the wage ncreases announced by the Railroad .abor Board are fair alike to the rail-vaymen and to those of us who have o foot the bill. It is entirely just that he largest percentage of increases hould be granted those receiving the east pay. . . . If railway engineers are o receive $280 a month, conductors ;257, firemen $210, gang foremen ;235 and boilermakers $201, surely it vas right to grant sufficient to raise inskilled laborers to $101, carpenters o $157 and telegraphers to $160."

, Fatima ad in 1920, when smoking was till respectable and Fatima a top brand

;ixty years ago

From the issue of August 1, 1930)

Funds have come to the rescue of the rocket theory' in scientific explora-ion of the upper ether. It appears that he Guggenheim fund has advanced redit for continuation of the research vhich has been carried on for the past even years by Robert H. Goddard of Clark University. Professor Goddard s working on continuously exploding uel which may propel rockets into he upper strata of atmosphere. . . ."

The present Labor government [of ;ritain] has been running into some omparatively choppy seas of late and ias just edged away from parliamen-ary defeat with a narrow margin in everal recent encounters. The House f Lords has again defeated, but by a ery small majority, the old proposal o allow women members to sit in the ignified Parliament."

Comfortable new railroad station opened in 1940 in LaCrosse, Wis.

Fifty years ago

(From the issue of August 1, 1940)

"The first 'streamlined' railroad station, typical of others planned by U.S. railroads, was recently completed by the Chicago, Burlington & Quincy at LaCrosse, Wis. With plate-glass windows, upholstered furniture, pastel-painted walls and acoustic ceilings, the new station is as modern as the trains that pass through it."

"We learned as schoolboy Latin students that 'all Gaul was divided into three parts.' Now contemplated is a threat that all the world will be divided into three parts: a Hitlerized Europe, a Japanese-dominated Orient, the New World under a beneficent umbrella hoisted and upheld by Uncle Sam."

"This month comes the long-awaited introduction of a household frosted-food locker box. An outgrowth of the public quick-freezing plant, common in rural areas, it marks the coming of age of a new industry. According to the producer, the locker will quick-freeze all kinds of meat, fowl, fish, fruit and vegetables, and preserve them for nine months without loss of nutritional value."

Twenty-five years ago

(From the issue of August 1, 1965)

"In his second Australian coal purchase in less than six months, U.S. tanker magnate Daniel K. Ludwig bought a group of coal properties in the Burragorang Valley of New South Wales from an Australian subsidiary of Britain's Rio Tinto-Zinc. The purchase reportedly makes Ludwig the largest Australian producer of coal for export, primarily for use in the Japanese steel industry."

"Across the South from Florida to Texas, a whirlwind expansion has taken place in the output of coarse papers, paperboard and newsprint. Georgia now ranks first in tonnage of paperboard and allied products, pushing Wisconsin to second, followed by Florida."

"Total air freight volume for U.S. airlines in 1964 was 1.3 billion ton-miles, up 26% over 1963; for the first three months of this year it kept growing just as fast. But the combination carriers [carrying both passengers and freight] have been taking an ever-larger share of the market from the all-cargo lines."

Ten years ago

(From the issue of August 4, 1980)

"The cost of building and operating apartments has gone up so much faster than rents that most new building not subsidized by the government will have a negative cash flow. It pays too well to convert existing good apartment buildings into condominiums, compared with what you can get for them as rentals. And rent control is too great a threat to risk building or owning rentals anymore."

—Apartment builder Les Nelson

"Over the July 12 weekend the largest foreign takeover yet ($820 million) of an American bank was worked out. . . . California's Crocker National Corp. (14th-largest bank holding company in the U.S.) agreed to sell a 51% interest to Midland Bank Ltd. (Britain's third largest). If the deal goes through, in one year's time it will put Crocker up in the top ten of U.S. banks in assets."

Thoughts
on the Business of Life

In a country well governed, poverty is something to be ashamed of. In a country badly governed, wealth is something to be ashamed of.
CONFUCIUS

If human progress had been merely a matter of leadership, we should be in Utopia today.
THOMAS B. REED

Those who bear equally the burdens of government should equally participate of its benefits.
THOMAS JEFFERSON

In framing a government which is to be administered by men over men, the great difficulty lies in this: You must first enable the government to control the governed, and in the next place oblige it to control itself.
ALEXANDER HAMILTON

What you cannot enforce, do not command.
SOPHOCLES

If you command wisely, you'll be obeyed cheerfully.
THOMAS FULLER

Nothing is more becoming a ruler than to despise no one, nor be insolent, but to preside over all impartially.
EPICTETUS

I must follow the people. Am I not their leader?
BENJAMIN DISRAELI

The government of the United States is a device for maintaining in perpetuity the rights of the people, with the ultimate extinction of all privileged classes.
CALVIN COOLIDGE

A magazine editor recently asked me to sit down on my 40th birthday and write an article on the most important things I had learned in my first 40 years. I told him that the chief thing I had learned was that the copybook maxims are true, but that too many people forget this once they go out into the heat and hustle and bustle of the battle of life and only realize their truth once one foot is beginning to slip into the grave. The man who has won millions at the cost of his conscience is a failure.
B.C. FORBES

You do not lead by hitting people over the head—that's assault, not leadership.
DWIGHT D. EISENHOWER

While all other sciences have advanced, that of government is at a standstill—little better understood, little better practiced now than three or four thousand years ago.
JOHN ADAMS

The final test of a leader is that he leaves behind him in other men the conviction and the will to carry on.
WALTER LIPPMANN

A leader is a dealer in hope.
NAPOLEON

More than 9,000 "Thoughts," indexed by author and subject, are available in a three-volume boxed set at $49.50 ($19.50 per volume if purchased separately). Also available, a one-volume edition of over 3,000 "Thoughts." Price: $19.50. Send check and order to: Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Add sales tax on orders in New York State and other states where applicable.

Few men have virtue to withstand the highest bidder.
GEORGE WASHINGTON

Only with a new ruler do you realize the value of the old.
BURMESE PROVERB

To rule is not so much a question of the heavy hand as the firm seat.
ORTEGA Y GASSET

No man is good enough to govern another man without that other's consent.
ABRAHAM LINCOLN

A Text . . .

For the poor shall never cease out of the land; therefore I command thee, saying, Thou shalt open thine hand wide unto thy brother, to thy poor, and to thy needy, in thy land.
DEUTERONOMY 15:11

Sent in separately by Robert L. Crawford, Paducah, Ky., and Elwyn B. Welch, Guthrie, Okla. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

Men are of no importance. What counts is who commands.
CHARLES DE GAULLE

As the bird feels about the net that entangles it, so do men feel about those who rule them.
CHINESE PROVERB

A tyrant is nothing but a slave turned inside out.
HERBERT SPENCER

August 20

DON PETERSEN: WHAT AILS U.S. INDUSTRY

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THE 30 HI ATHLETES

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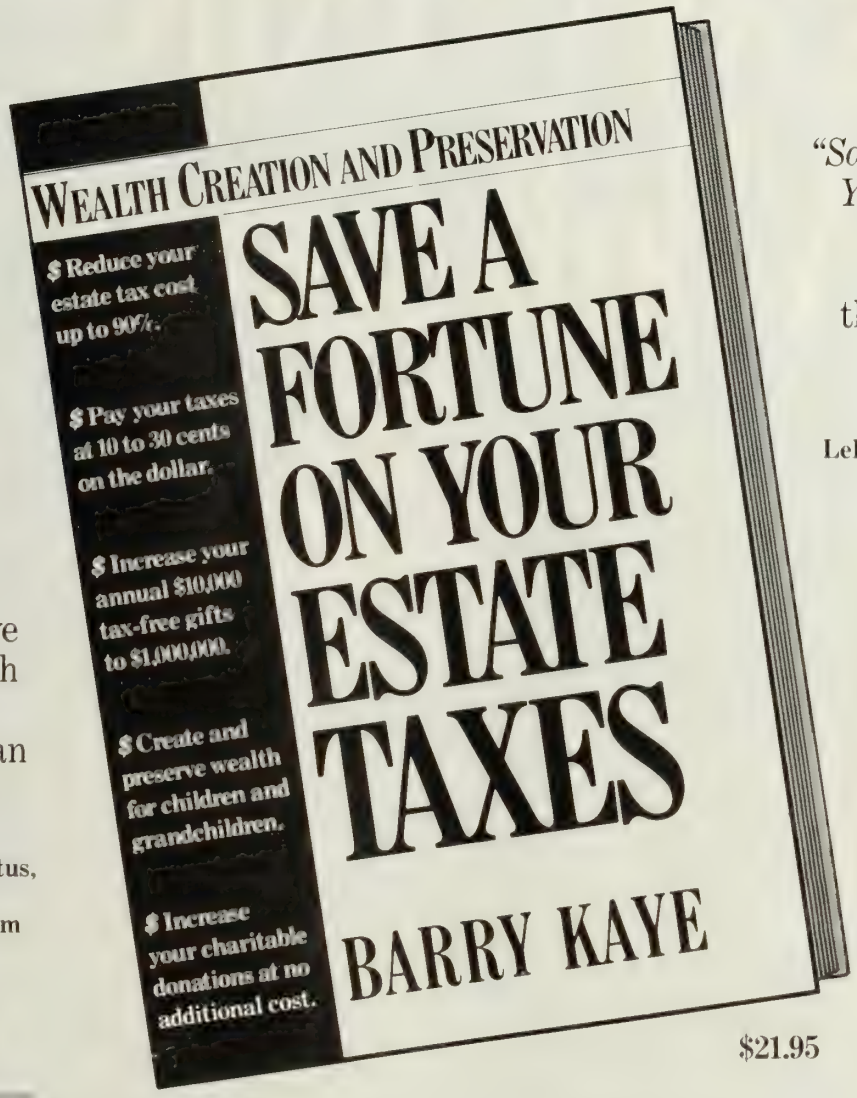

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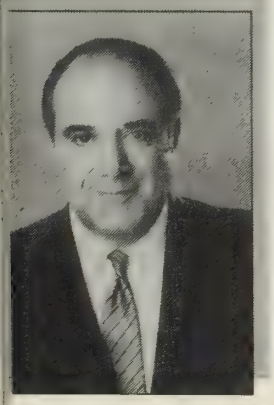

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Malcolm S. Forbes, Jr., President and Editor-In-Chief, *Forbes* Magazine

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Robert E. Petersen, Chairman, Petersen Publishing Company

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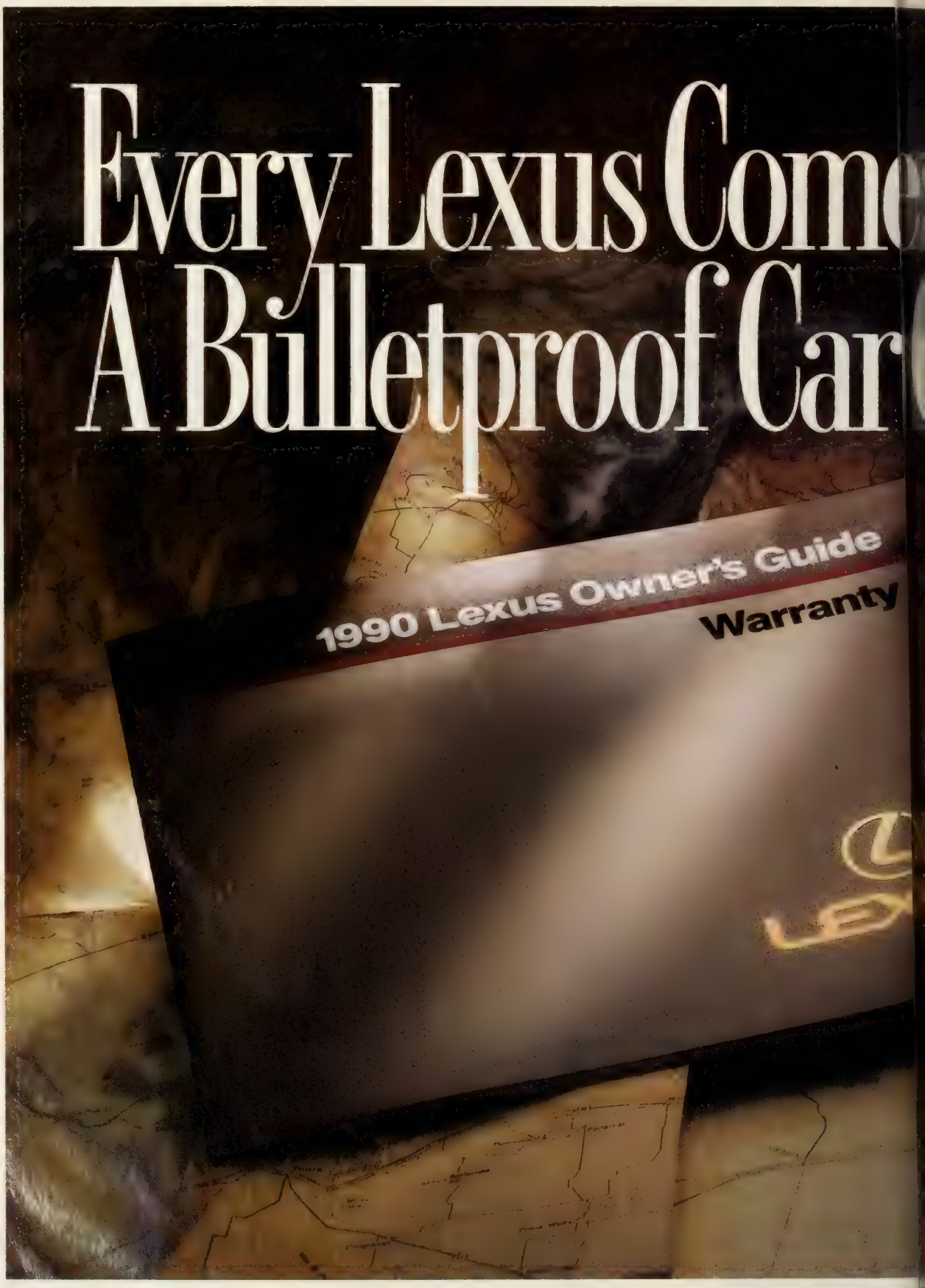

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Side Lines

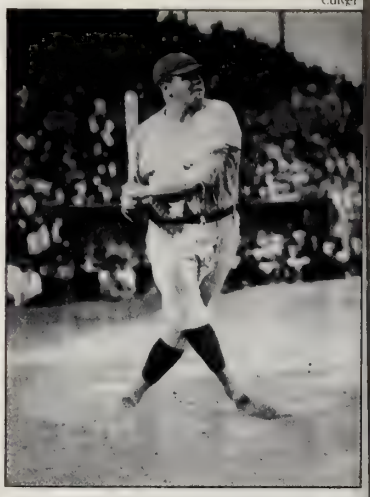
The scam factories

Blinder, Robinson, the crooked penny stock brokerage firm filed for Chapter 11 late last month. No tears for Meyer Blinder and his army of fast-talking telephone hucksters, who separated ordinary Americans from hundreds of millions of dollars. The firm has been on the skids for several years, a decline helped along by a carefully documented Forbes article by Matthew Schifrin *(Apr. 20, 1987)* that dubbed the firm "Blind 'em and rob 'em." Three years earlier Richard Stern's prize-winning exposé helped drive Robert Brennan's crooked First Jersey Securities out of business.

But the milking of naive investors goes on. In this issue Claire Poole looks at another scam factory, Stuart-James Co., which was founded by Blinder alumni. New names, similar game. Poole's article, "Have I got a stock for you," starts on page 40.

A little money on the side

Culver



The Sultan had a better year than the President

In 1930 George Herman (Babe) Ruth earned $80,000 from the New York Yankees. Told he made more than President Hoover, the Sultan of Swat delivered his now famous wisecrack: "Well, I had a better year than he did." Today, of course, hundreds of athletes make more than the President, even if they don't have better years. One reason is that Presidents don't accept money for endorsing products, but athletes wallow in it. (Athletes rarely did in Ruth's time. The Baby Ruth candy bar was named for President Grover Cleveland's infant daughter, Ruth.)

So, which athletes make the most money—from endorsements and from sports? Forbes introduces with this issue an annual listing of the 30 highest-earning athletes. What does it take to get on the list? You need talent but it also helps to be temperamental. The accompanying article, "Throw a tantrum, sign a contract," (page 68) is by Peter Newcomb and Christopher Palmeri; Newcomb also oversaw the project on athletes' finances.

Economics is not enough

Paul Klebnikov's "After Gorbachev, who?" (page 36) is based on an interview with Victor Aksyuchits, chairman of the new Russian Christian Democratic Party. Klebnikov takes seriously this right-of-center party's eventual chances for coming to power in Russia. He speaks with authority. Klebnikov is a candidate for a Ph.D. in Russian history, is fluent in the language and has visited the country many times. Says Klebnikov: "These Christian Democrats combine a return to Russian culture and history with an appreciation for the value of Western-type market economics. That gives them a spiritual, an emotional appeal the rival Social Democrats lack."

James W. Michaels
Editor

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u love?
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Follow-Through

Edited by Edward Giltenan

Bondholders fight back

For Southland's Jere Thompson, a smaller equity slice

Shelly Katz

Deltec Securities President John Gordon has just won one for fellow Southland Corp. bondholders, including corporate raider Carl Icahn and New York bankruptcy investor Martin Whitman. As FORBES urged in May, Gordon prodded Southland management to give bondholders a better deal than the company had offered as part of its initial financial restructuring program.

Southland's defaulted bonds responded nicely, with some of them rising from 33 cents on the dollar to 52 cents on the dollar. Southland owns the 7-Eleven convenience store chain, which sank under the weight of debt incurred in a management-led buyout.

Under the new deal, bondholders will receive $65 million in annual interest payments, versus nothing under management's original plan. Bondholders and preferred shareholders will also be given 25% of the company's equity, up from 10%. The firm's founders, the Thompson family of Dallas, agreed to cut their remaining equity stake to 5%, from 15%.

Meanwhile, Ito-Yokado, the retailing chain that brought 7-Eleven stores to Japan, has agreed to pay $430 million for 70% of Southland's stock; previously it had sought a 75% stake for only $400 million.

Junkholders of the world, unite; you have more power than you may think. —**Matthew Schifrin**

Rank, rankled

An article in the last issue of FORBES about the U.K.'s Rank Organisation predicted that Rank's $150 million acquisition of Deluxe film lab, the second-largest motion picture film processing company in North America, would be approved by the Justice Department. It was a hasty prediction. On July 17, Justice announced its intention to file an antitrust suit to block the deal.

The problem is that Rank, an aggressive theme park operator, already owns Film House of Toronto, the third-largest film processor. Rank executives say they will fight the Justice Department's lawsuit "vigorously." But Justice hasn't lost a court challenge to antitrust law since 1986. We've made wrong predictions before but rarely one that went wrong so quickly.—**Jeffrey Ferry**

Should Rank stick to theme parks?

Sold, to the low bidder

Even as the Wall Street brokerage Thomson McKinnon lies in Chapter 11 bankruptcy proceedings, the pillaging continues.

As FORBES reported a year ago, Thomson McKinnon's demise followed years of management excess. Top managers provided themselves with the private use of a 97-foot yacht and fancy company apartments in Puerto Rico and Manhattan. They also took interest-free million-dollar loans and salaries exorbitant even by Wall Street standards. Rank-and-file employees, who saw their retirement plan disintegrate, filed a class action suit seeking some $100 million in damages.

Today, the only asset of any real value that Thomson holds is its stake in Thomson McKinnon Asset Management L.P., a group that manages $7 billion in private accounts and Thomson mutual funds. In late July Thomson announced that, subject to several conditions, it had sold its asset management division to an insider outfit called Thomson Advisory Group. The price? Under $7 million, a bargain, considering that TMAM earned $16 million last year.

No more Thomson McKinnon voyages

Were there other bidders for the company? Management says only, "There was interest." In fact, as long ago as Feb. 15 of this year, a fully financed cash offer of $28 million was made by Private Capital Partners, a New York investment firm. Even though the offer was four times greater than the insiders' price, the deal went nowhere and was never made public. Thomson had yet to file for bankruptcy, so there was no court overseeing the deal.

The firm's creditors are scheduled to meet sometime this month and will probably discuss the matter at great length.—**Gretchen Morgenson**

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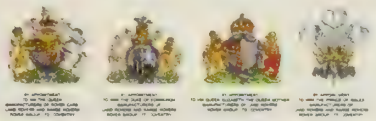

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Forbes Informer

Edited by Eric Schmuckler

Drugged

The Pharmaceutical Manufacturers Association, which represents the big drugmakers, has been caught snoozing. The usually vigilant PMA thought it had killed, at least for this year, a bill pushed by Senator David Pryor (D–Ark.) that attempted to strong-arm drugmakers into giving discounts of at least 15% to Medicaid, the federal/state program for the poor. Medicaid will spend more than $5 billion in federal and state funds on drugs next year; the program accounts for as much as 15% of revenues for pharmaceutical companies.

But the idea didn't die. In a surprise move, White House Budget Director

Laura Cornell

Richard Darman has revived it as a part of the budget summit talks. Darman's staff figured the federal government could save hundreds of millions of dollars a year through Medicaid drug discounts; the Bush Administration will now put its own scheme to pressure drugmakers to cut prices into the budget.

"It's the drug industry's worst nightmare," says Hemant Shah, an independent drug analyst in Warren, N.J. "They could attack an independent bill, but as a part of the budget it's impossible to stop."

Things could get worse. Drug industry lobbyists fear that once Medicaid gets its discounts, private medical insurers will demand similar price deals.—**Janet Novack**

Hurry up

McDonnell Douglas has been hit by defense department cutbacks and cost overruns on its civilian and military projects. Indeed, the $15 billion (sales) company announced that it was laying off as many as 17,000 workers to cut expenses and help reduce its mountainous debt load.

The one strong ray of sun is the MD-11, a long-range commercial jetliner designed to compete with Airbus' A340 plane and Boeing's newly announced 777. With 157 firm orders for the MD-11 so far, the company's very future looks to be riding on prompt delivery. The company says the FAA will have completed its airworthiness tests on the MD-11 in time for some fourth-quarter deliveries. But some company insiders confide that as of late July the plane was only halfway through its FAA trials. What's more, substantial problems in the MD-11's fancy cockpit computer software could delay the plane's delivery well into the first quarter of 1991, possibly even the second. Already flying pretty close to the edge, McDonnell Douglas does not need a delay on the MD-11.—**Gretchen Morgenson**

Failing upward

It's good to know that at least some out-of-work Wall Streeters are landing on their feet. Take the former top brass at Thomson McKinnon, the 100-year-old brokerage that collapsed in June, a victim of mismanagement and the astounding greed of its own executives *(see Follow-Through, p. 10)*.

J. Ronald Morgan, once the firm's chairman, now hangs his hat at Pershing Keen & Co. Ltd., the clearinghouse division of Donaldson, Lufkin & Jenrette in London. His new job: Managing director and chief executive officer of the firm.

Philip Fahey, formerly Thomson's president, is also doing nicely. He was a member of the liquidation staff that's selling Thomson McKinnon's few remaining assets. His remuneration for this task was handsome indeed: Fahey received at least his annual Thomson compensation, estimated to approach $1 million. How's that for failing upward?—**G.M.**

Strange bedfellows

Four-year-old Shearson Union Square Associates, a $72 million limited partnership that owns the Grand Hyatt San Francisco, hasn't paid a distribution since 1988. It is the defendant in four unit-holder lawsuits. Guess who's helping the unit holders? Organized labor.

Last month a lawyer paid for by the 300,000-member, Washington D.C.-based Hotel Employees & Restaurant Employees International Union appeared in court on behalf of dissident investors. He was representing 850 limited partners, who had responded to a union-financed mailing and indicated they were opposed to a settlement offered to unit holders by the partnership's sponsor, Shearson Lehman Hutton. The union lawyer asserted the settlement was inadequate, and urged the court to reject it. The union wants Shearson to guarantee investors' principal. Shearson declines to comment because it is in litigation.

The union was acting out of concern not for unit holders but for itself:

Gerry Gropp

The Grand Hyatt in San Francisco

Why is the union carrying the bags for investors?

It is afraid that management in this and other financially troubled hotels will use their money problems to try to decertify the union. Says union research analyst Matthew Walker, "By working with limited partners, we are protecting our mutual interests."

In fact, this is the union's second offer of help to unit holders of a soured Shearson hotel partnership. Last year union staffers sent letters to Shearson brokers and took out an ad in the *Wall Street Journal* warning of problems at the Radisson Plaza Hotel in Los Angeles, after payroll checks began bouncing and the hotel's management refused to sign a new contract. Shearson eventually brought in a new general manager; the workers got their contract. Expect more such unholy alliances, as the hotel industry sags with overcapacity and shaky financing, between disgruntled workers and unhappy limited partners.—**Ruth Simon**

Some set up

Those new kids on the block at Sony Corp.'s Columbia Pictures, Jon Peters and Peter Guber, appear to have gotten the deal they wanted, again. As usual for Columbia, the price was high. Last month production was abruptly halted on Columbia's much-hyped film *Radio Flyer*, after just two weeks of shooting. This was the script that Columbia bought with great fanfare for a reported $1 million; as part of the deal, scripter David Mickey Evans, with nary a major movie to his credit, insisted that he make his debut as the film's director as well.

The production halt was Evans' pink slip as director. Instantly, the Hollywood rumor mill had it that the whole thing was a Guber-Peters setup; that they were hot for the script, but never intended to let him direct. After all, even before production began, Hollywood insiders whispered that Richard Donner, not Evans, would direct the film.

Now Donner *(Superman, Lethal Weapon)* has indeed signed on, for a reported $5 million. Production is expected to resume in October. Evans will now be credited as a producer as well as writer.

The setup rumor was a juicy one. Too bad it isn't true. In fact, the frantic last-minute scramble to hire Donner got him top dollar—plus a producer's credit and a $1 million salary for his wife. Besides, if it was all planned in advance, there'd be no need to stop and start production, which will add hundreds of thousands to the budget. In the end, Columbia got both the script and the director it wanted, but it didn't come cheap.

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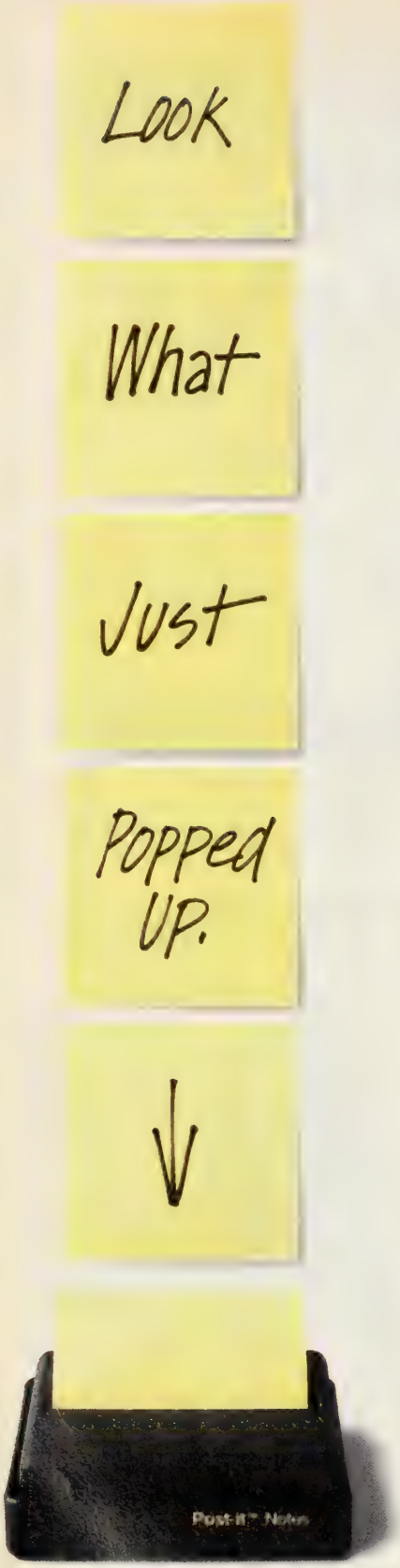

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Readers Say

Drivin' my life away

SIR: Re "Trading free time for better housing" *(July 23)*. Now I know the housing-price bubble is about to burst. How could FORBES fail to see through the mania gripping a market where people are crazy enough to invest in desert homes that require a four-hour daily commute?
—Steve Lipson
Dallas, Tex.

Let it rain

SIR: Don't ask me to cry over the water shortage in southern California ("Drought," *July 23*). They've had over 25 years to prepare for the cutback of water from the Colorado River, and it's not exactly a new phenomenon that the region is dry. Besides, if the market system was working so well, there should have been a flood of products to control water use.
—Mark E. Cassel
West Chester, Pa.

SIR: The practical solution is for farmers to pay a fair price for water. They would then stop planting water-intensive crops, such as alfalfa, cotton and rice, and would use water-conserving irrigation systems.
—Herbert W. von Colditz
Alameda, Calif.

SIR: I live in the Owens Valley, where Los Angeles gets most of its water. I can see what has happened to this valley already as a result of Los Angeles' rapacious water grab, and see no reason for turning this valley into desert to make greedy land developer and farmers rich.
—S.J. Haye
Independence, Calif.

Alejandro Tomás

Painting the grass green

SIR: The statement that grass for livestock sucks up enough water to supply all of California's current population is ludicrous. Livestock are raised on grass fed by nature's rainwater, not by irrigation.
—Kim A. Oviatt
Kayo Ranches
Visalia, Calif.

Many factors

SIR: Re Ben Weberman's column *(July 23)*. Judging a municipal bond insurer solely by its risk-to-capital ratio is arbitrary and inadequate. MBIA's Triple-A rating is based on an analysis of many factors, including the resources we have to pay claims under severe economic conditions and the quality of our insured portfolio.
—William O. Bailey
Chairman
MBIA
Armonk, N.Y.

Clearojeanas

SIR: Re your Fact and Comment proposal on how Neutrogena should diversify into apparel as short-lasting as the soap *(June 25)*. You missed the most salient selling point: Make the jeans equally translucent as the soap! Now that would make the product worth the premium price.
—Jonathan O. Bloom
Union, N.J.

Interest in growth

SIR: Your article "The gospel according to Knut Wicksell" *(July 9)* perpetuates some damaging myths. The Fed's flat yield curve policy is bad, and not even Wicksellian. It's just the Phillips curve in another guise—a new justification for slow growth from people I thought were pro growth all the way. As Milton Friedman says, the real rate is 4%, not 8.35% or 8.5%, the yield on long bonds.

If the Fed wants to use a credit price rule, then target the yield on long-term Treasurys at 4%. Let markets determine short rates, the quantity of

money, the GNP growth rate and everything else. Inflation expectations will, practically by definition, be zero. That would put the Fed's money where its mouth is.
—David Ranson
H.C. Wainwright & Co.
Economics, Inc.
Boston, Mass.

Tax 'em high

SIR: Charles Babin understates U.S. voters' favoring a tax hike on the wealthy *(July 23)*. No one can justify a progressive income tax for low- and middle-income groups with no progressive income tax for the rich and superrich.
—Joseph R. Rowen
Longboat Key, Fla.

Wrong impression

SIR: Re "Totally tubular" *(June 25)*. You write that Virgil Rath founded his company by buying the bankrupt factory that sold him his wares. My father, Roy L. Meyers, owned that company, and was never bankrupt. He retired from the business because government controls prevented him from making a profit. Perhaps the fact that his business was sold at auction gave the bankrupt impression.
—Mrs. Helen Meyers Graham
Janesville, Wis.

Quarterly devastation

SIR: FORBES referred to the environmental concerns of groups in Point Comfort, Tex. as "hysterical media-speak" because they object to wastewater violations by the Formosa Plastics Group project *(Follow-Through, June 11)*. I suppose it would be more "profitable" if we could just devastate the entire planet to show a few good fiscal quarterly reports.
—Peter G. Rivard
Montreal, Canada

Sponsored

SIR: Our ADRs are erroneously described on page 336 as being unsponsored *(July 23)*. The securities are most definitely sponsored, as correctly pointed out in the other tables.
—George Arfield
Director of Corporate Communications
Akzo America Inc.
New York, N.Y.

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Victor Simon
Senior Petroleum Engineer
Texaco

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Victor and his group have a commitment to corporate quality that goes beyond standard business practice. They have a driving desire to succeed without wasting time or energy; to make sure that when a job is done, it's done right the first time and every time.

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Fact and Comment

By Malcolm S. Forbes Jr., Editor-in-Chief

HOW TO IGNITE A FIRE STORM ON TAXES

Eliminate or limit federal deductions for local tax payments. The pain of paying these levies will become acute. Politicos will face withering volleys from unhappy voters. A wave of tax cuts and local spending reductions will result.

BOGUS ARGUMENT

One of the principal arguments against a capital gains tax cut is that the reduction would cost the government revenues over a five-year period. Opponents acknowledge that in the first year or two, receipts would go up, but they maintain that this merely steals revenues in future years and that with rates lower, the government will end up with less dough.

The argument is fallacious. It assumes there's a fixed amount of capital gains that will be harvested regardless of the rate.

A lower levy would stimulate enterprises. It would free capital to go to the most promising opportunities. Government would end up gaining.

Look at history. In 1978 the rate was cut from a maximum of 49% to 28%. The Treasury Department warned that such a steep reduction would cost the government $2 billion. Instead, revenues in 1979 went from $9.1 billion to $11.7 billion and climbed higher each subsequent year. In the early 1980s the levy was downsized again to 20%. Between 1981 and 1986, federal collections of this tax zoomed from around $13 billion to over $49 billion.

But in 1987 the capital gains tax was sharply boosted. Result: Receipts fell 34%.

The same pattern is true on the state level. After 1986, local collections from this exaction fell far short of expectations.

THERE'S MORE TO THE RUSSIAN REVOLUTION THAN MIKHAIL GORBACHEV

American and European policymakers haven't yet grasped the full potential of the democratic movement in the Soviet Union *(see interview, p.36)*. Boris Yeltsin's ascent, for example, is being materially helped by democratic activists.

Three of these emerging leaders recently visited us: Victor Aksyuchits, Father Gleb Yakunin and Valery Borschov. They head up the new Christian Democratic party. Father Yakunin spent five years in the Gulag for his anti-communist activities and is now a member of the new Russian Parliament. Aksyuchits, a noted theologian, and Borschov, a member of the Moscow City Council, were continually harassed after they each quit the Communist Party 11 years ago.

Glen Davis

(l.to r.) Valery Borschov, MSF Jr., Victor Aksyuchits, Father Gleb Yakunin

They and others like them are no parlor politicians. They are street smart and tough. They are fervent believers in democracy and free enterprise and are receptive to bold ideas. The Moscow City Council, for example, is enacting legislation to give residents the apartments they now occupy. There will be no restrictions on buying or selling these apartments or passing them on to heirs. The effect will be revolutionary, similar to Czarist Prime Minister Stolypin's reforms of 1906-11 that gave land to millions of peasants. If people own property, their political attitudes change significantly.

The Communist Party is rapidly losing legitimacy and the best and brightest are quitting à la Yeltsin. These

activists say that Gorbachev must do the same within the next 12 months if he is to maintain his authority.

Such democrats as Father Yakunin vigorously disassociate themselves from the extreme nationalists that some Western writers consider to be the only non-Communist alternative to Gorbachev. Moderates easily outvote extremists in elections.

Even if all goes well, it will still take years for Russia to achieve Western-style democracy. And authoritarian reactionaries could ultimately triumph. But there's no doubt that a growing nucleus of revolutionaries wants to make democracy a reality. Why doesn't the U.S. actively aid them by providing training, printing equipment, paper (supplies of which are controlled by the government) and the like?

MIDEAST MUSSOLINI

Iraqi dictator Saddam Hussein is on a rampage again, having just forced Kuwait to boost oil prices by moving up 100,000 of his troops to Kuwait's border. He also plans to shake down the tiny kingdom for billions of dollars in "reparations" for trumped-up "damages."

With his centralized economy floundering—only immense oil reserves prevent a collapse—Hussein is looking for easy conquests to ease pressure at home.

What is to stop Hussein from seizing Kuwait and other oil-rich neighbors? His army numbers more than Kuwait's entire population. The U.S. has responded to Iraq's recent maneuvers by deploying naval and air forces to the Persian Gulf. But Hussein may think that the U.S. would not intervene directly if he went to war.

No wonder. Iraq is now one of the world's great military powers: It has an army larger than that of the U.S. Its battle-hardened troops held off Iran in an eight-year war (started by Hussein) that took over a million lives.

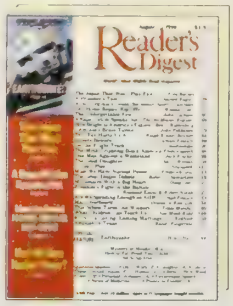
Bloodthirsty Hussein is expanding his inventory of medium-range missiles and is building up a stockpile of chemical weapons. He used chemical weapons against Kurdish civilians in his own country, and, of course, against the Iranians. He has threatened to use them against Israel. He is also working hard at developing nuclear weapons.

This thug, who has murdered countless thousands of innocent people, is a reminder that despite the Kremlin's internal troubles, the world remains an unsafe place.

The U.S., Israel and Western Europe, not to mention other Arab countries, should be thinking hard about how to curb this madman. Despite Iraq's gangster behavior, though, the U.S. still hasn't imposed even economic sanctions against Baghdad.

INFORMATIVE FARE

Those who still think of the *Reader's Digest* as simply a compendium of pieces on how to lose weight and how couples can improve their sex lives should look at the August issue.



There are several particularly good articles. One is on the need for a capital gains tax cut. Another, by Dr. Frederick Seitz, renowned scientist and former president of Rockefeller University, persuasively discusses why we must revive nuclear energy. A third piece profiles the charitable side of one of the great retailers of our age, Milton Petrie. And noted political scientist and demographer Ben Wattenberg quickly lays out the case for the U.S.' future's being brighter than many observers believe.

The *Digest* is achieving the impossible feat of providing something of interest for everyone—and doing it succinctly and effectively.

PERESTROIKA FOR BASEBALL

David Halberstam's bestseller *Summer of '49*, now in paperback, provides an ever-useful lesson: Free markets work. While detailing how the formidable Red Sox blew it to the Yankees more than 40 years ago, the volume also gives us a timely reminder that baseball owners are often the game's worst enemies, resisting every progressive change. Free enterprisers they have not been.

For decades major league moguls kept blacks off their teams, depriving themselves of hundreds of talented players. Most owners were leery of televising games, fearing attendance would suffer. Today more than twice as many people troop to the ballparks as did before the advent of TV. In the 1970s owners declared that letting players go to the team offering the best deal would bankrupt baseball. The price of baseball teams has zoomed and TV revenues have soared, despite players' stratospheric pay. This so-called free agency has made pennant races more exciting: There is no way in a free market that the Yankees could have kept a hammerlock on so much talent as they did from the 1920s to the mid-1960s.

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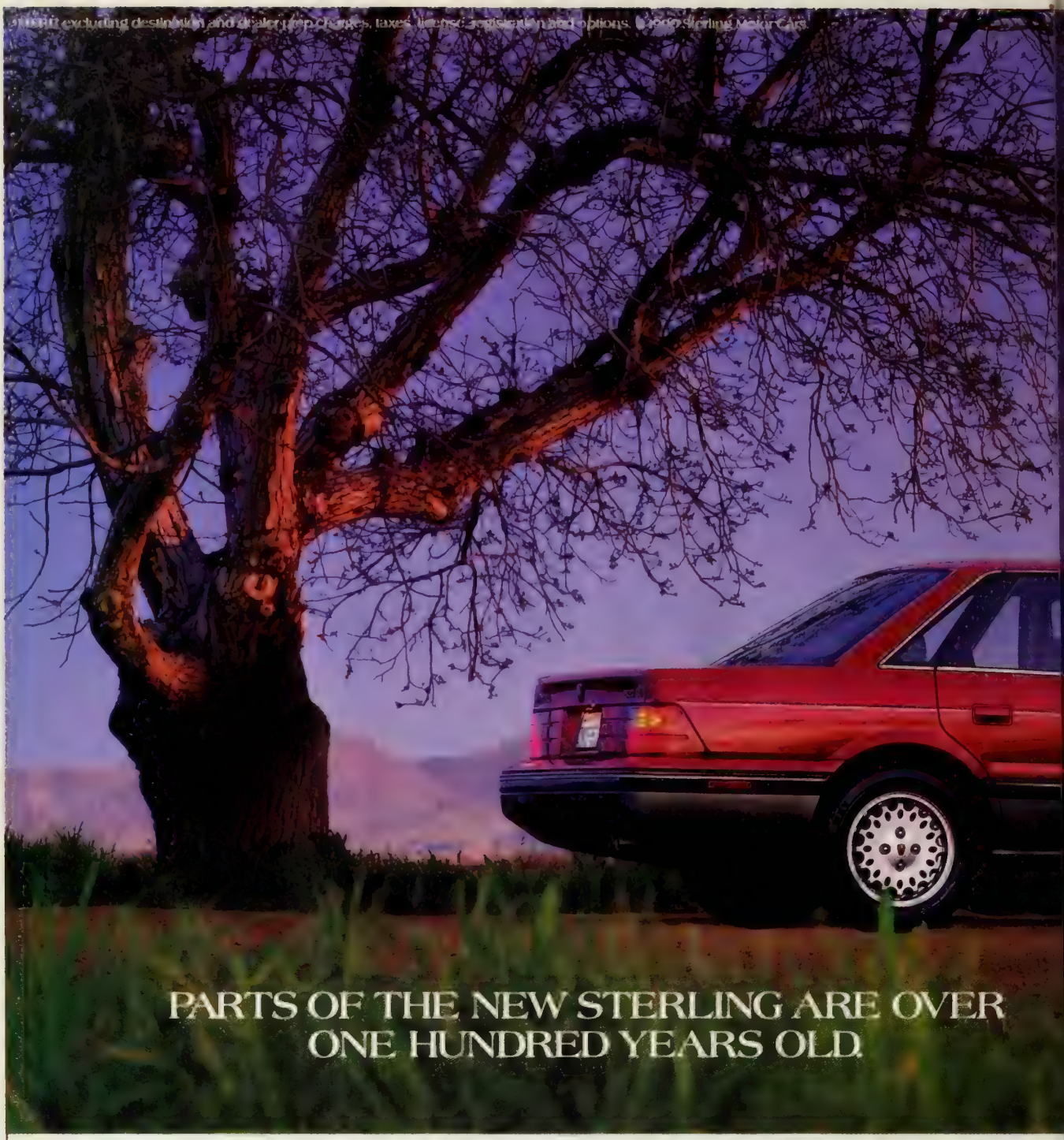

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Other Comments

Tall Talker

If other people are going to talk, conversation becomes impossible.

—James McNeill Whistler, in *The Portable Curmudgeon*

Pure and Simple

My mother's family love to boast of their long tradition in the textile business. But what, basically, have they accomplished but buy from the Scots and sell to the Jews? Conceding that it took a bit of talent to squeeze a living out of *that* transaction, where is the basic 'contribution'? No, when it's profit you're after, why go about it the hard way? I intend to be a stockbroker. It is a profession that is devoid of hypocrisy. One attempts to make the most money with the least work. It is clean. It is pure. It is without cant.

—Louis Auchincloss, *A World of Profit*

A Hold on Growing Old

The aging process will be slowed by better nutrition, exercise and preventive medicine so that by 2040 a person of 65 may be physically comparable to a 45-year-old of today. Scientific advancements will allow the terminally ill to live longer, but fewer may want to. Legal directives indicating the point at which a patient wishes life-prolonging treatment to cease are already allowed in most states; by next century, such statements will become as common as indicating the beneficiary of a bank account. Life expectancy, just 20 years in Greek and Roman times, could climb to 85 by 2030 and 100 by 2050. But many researchers believe there is a limit to man's longevity, that humans carry an only slightly alterable genetic clock that eventually orders the body to shut down.

—*Life*

Helping Hand

Moss Hart and his wife, Kitty Carlisle, bought a handsome house in Bucks County, Pa., and Hart immediately set about landscaping it. When the job was done, the Harts invited Wolcott Gibbs, the *New Yorker*'s drama critic, down for a weekend, and Hart showed him around. "I brought in that clump of beeches from over *there*," he said, "and put them *here*. Then we put the willows in to balance them. Now, the forsythia. . . ."

When he had given the complete tour, he asked Gibbs, "What do you think of it?" Gibbs said, "It just goes to show what God could do if he had your money."

—*Hodgepodge*, by J. Bryan III

Our Greatest Asset

Over 200 years ago Adam Smith wrote the recipe for creating wealth, an *Inquiry into the Nature and Causes of the Wealth of Nations*. Today, I'm asking for an inquiry into the nature and causes of the wealth of *cities*. Our greatest assets are not in the wealth w see around us but the potential whic is unseen . . . in the minds yet to b educated, in the businesses not y opened, the technologies not yet di covered, the jobs waiting to be create

This is a country of dreams. Americ has long dreamed of a better future fo people everywhere. America's perm nent revolution has brought a fresh a of freedom that's blowing around th world. But it's also time to bring th revolution back home to America, t extend the capitalist economy acros our whole society and put it to work fo all of our nation's people. Let us mak the decade of the '90s the time we wi the war against poverty, just as th decade of the '80s was the time we wo the cold war against communism.

—Jack Kemp, Secretary of Housin & Urban Developmen

"I once heard a definition of an intellectual as a man who takes more words than are necessary to tell more than he knows.

—President Dwight D. Eisenhowe

Tax It, Not Me

The American social order of th mid-21st century, according to Kal man A. Toth, founder and chief scien tist of Silico-Magnetic Intelligenc Corp., "will consist of 2 billion artifi cially intelligent workers, doing busi ness and generating taxes; 5 millio people paid as government workers and the rest of the population getting a salary to enjoy life. We let the ma chines be the commercial owners managers and workers, while the gov ernment taxes the machines and dis tributes the tax income to the people as a salary for living."

—*The Futurist*, World Future Society

Simpson Who?

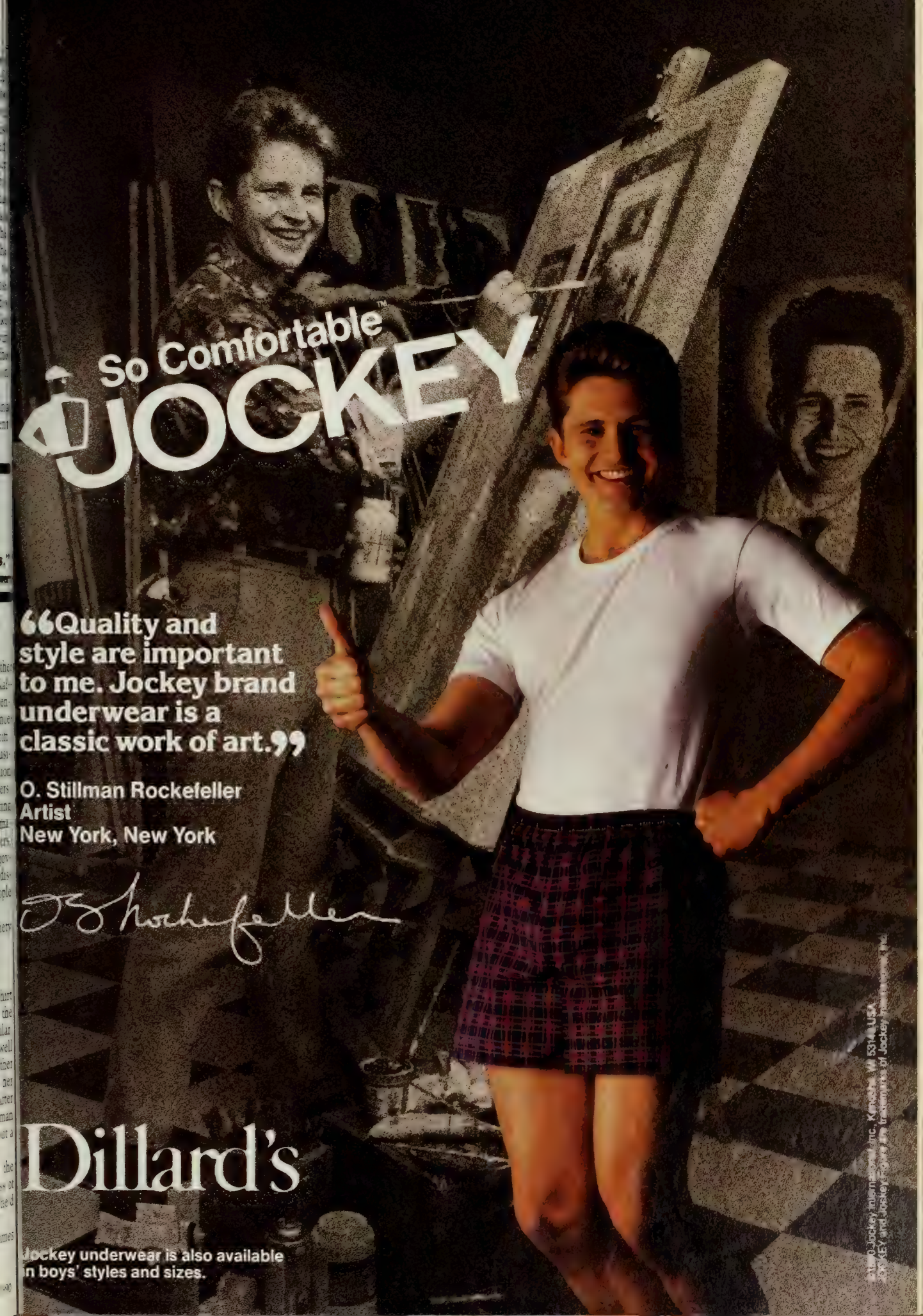
At Beachy Attitudes, our T-shirt store [in Provincetown, Mass.], the Simpson shirts are very popular, though perhaps not quite as well known as I had imagined. The other day a silver-haired woman and her thirtyish son came in to browse. After checking out several designs the man yelled across the store, "How about a Simpson shirt for Dad?"

There was a pause and then the woman replied: "Oh, the Duchess of Windsor? No, dear, I don't think he'd like that."

—Steve Katz, *New York Times*

Drawing by Stevenson; ©1990 The New Yorker Magazine, Inc.

"How about 'No new taxes after *these new taxes'?"*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Commentary
on Events at Home and Abroad

By Caspar W. Weinberger, Publisher

BEWARE OF BUDGET SUMMITS

Budget summits always excite Washington—the Washington insiders, that is; they have been assuring us since 1982 that we have to have tax increases to reduce deficits.

A budget summit is going on now, and it is the best example of what Alan Keyes of Citizens Against Government Waste meant when he said in *Insight Magazine* that "These summits only do one thing: They legitimize tax increases." Sadly, they never legitimize spending cuts. The *Insight* article shows that the budget deficit *increases* in fiscal years after a summit but *declines* when there is no summit.

It is easy to see why this is virtually inevitable. If you have a meeting between two groups, each with a different solution to a problem, and both sides are afraid of emerging without an agreement, any agreement will, of course, contain parts of each group's solution.

In budget summits that means that the Republicans will agree to tax increases and the Democrats will promise to cut spending. Since there are more Democrats who want tax increases, those increases are easily adopted—and more easily still if Republicans join in voting for them, which removes the political taint of voting for more taxes. However, spending cuts, except for Defense, are usually rejected.

Getting the Right Agreement

Meetings on highly contentious issues do not always end in the sort of compromises that are much worse than adjourning with no agreement. At the ill-conceived Reykjavík arms control meeting in 1986, American opponents of President Reagan's Strategic Defense Initiative could not believe that he would emerge from a meeting with the Soviet leader without accepting Russia's main demand, that the U.S. give up SDI. But the President stood firm, and thereafter the Soviets signed the INF Treaty.

Incidentally, all the INF negotiations, spread over a six-year period, illustrate the point that negotiations need not inevitably lead to bad agreements. It took a rock-solid U.S. position—one that critics always called "stubborn"—to get what is now universally acknowledged to be a good treaty.

Now, back to budget summits: At 1982's summit, Democratic negotiators promised to reduce $3 of expenditures for every $1 of tax increases, if President Reagan would accept a tax increase. The President agreed and kept his promise; the Democrats did not, and the deficit went up. In 1984 the bait was a $50 billion tax increase, in return for which the Democrats promised a $110 billion spending cut. The result? A tax increase *and* an increase in the 1985 deficit, from the $180 billion level promised, to $212 billion.

Each time the driving force behind the President's agreement for tax increases was the argument, frequently heard today, that the budget summit could not break up without an agreement because the stock market then would fall, the economy would virtually collapse and unemployment would descend upon the land. And, that the only way to get an agreement was to accept a Democratic tax increase.

The 1990 pattern is very similar—with one new twist. The Democrats have threatened the unthinkable: They will not agree to anything *unless* the President agrees to new taxes. In fact, their latest demand, made by Senator James Sasser, is that the President go on national television shortly before the elections and tell the people why *he*, the President, demands new taxes.

The blatantly political nature of the whole process is perfectly demonstrated by these Democratic demands. They have regularly favored new taxes. But they have been very circumspect about saying so—"unless the President goes first." Now, either the country needs new taxes or it does not. If one thinks it does, it is quite irresponsible to vote those increases *only* if the President "agrees" to "go first."

History's lesson is clear: This year the President should refuse to agree to *any* tax increase until after deep spending cuts for the next five years are actually *enacted*—not just promised—by Congress.

Who Needs an Agreement?

And, if this should result in the breakup of budget summit talks without an agreement, so much the better. We are now more than seven years into our great period of prosperity: The percent of national debt held by foreigners is no higher than it was 10 years ago; employment is high and unemployment is low; inflation is low; interest is low, but could be lower; and the GNP grows at a satisfactorily steady rate. The only thing we have to fear is a budget summit agreement.

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NORTHWEST AIRLINES

Edited by Howard Banks

THE U.S.' FIBER-OPTICS HIGHWAY

Congress goes the wrong way on cable TV

CONGRESS' RUSH TO RE-REGULATE CABLE TELEVISION is holding hostage how well the U.S. will make the transition to an information-based economy, with all that implies for future U.S. competitiveness.

The seven regional Bell telephone companies want to get into cable TV to help justify the investment needed for them to lay fiber-optic cable through most of the U.S. The importance of a national fiber-optic network is not hundreds of cheap TV channels, and telephones. It is that fiber optics is the key to creating a digital telecommunications network throughout the U.S.

A recent Hudson Institute report says that such a network "is the single most important thing the U.S. could do now to promote its industrial interests." Many large U.S. companies are investing in private networks. That's fine, but it leaves out the thousands of small companies in the U.S.—the over 80% of U.S. companies that have fewer than 20 employees but account for around half of the national output.

Competition is the best price control

OPENING UP CABLE TV TO COMPETITION from the Bell companies is just the first step toward creating a digital network, but Congress has problems even with that.

That cable rates have been climbing should be no surprise. Congress deregulated cable TV prices in 1984 without at the same time opening the market to new competition. The inevitable result has been roaring price inflation—39% to 43% since deregulation, and 10% in 1989—and roaring complaints from voters. Politicians' hoped-for answer: Encourage competition. Politicians' actual answer: Retain the monopoly and control prices.

Couch potatoes would gain from more competition in telecommunications, through cheaper, and probably better, cable TV. *Consumers' Research* magazine found that in 26 localities with a second system, cable cost an average 35 cents per available channel per month in 1989, against 52.5 cents nationally.

It's time to free the Baby Bell seven

THE U.S. AS A WHOLE WOULD, OF COURSE, GAIN MUCH MORE. There would be faster growth among the seven Baby Bells, which account for two-thirds of U.S. capacity in telecommunications. And, more important, there would be the unquantifiable multiplier effect on the rest of the economy of better, faster communications.

If Congress passes anticompetitive cable TV rules, the chances are good that President Bush will veto them. That will delay this issue until 1991 and will, in turn, delay for even longer the Federal Communications Commission's recommendation, expected this fall, that the restrictions on the Baby Bells' doing manufacturing and many kinds of research and development be loosened.

The only people to gain from these delays would be the Europeans, who are investing heavily in modern telecommunications, and the Japanese, who plan to invest $250 billion over the next 12 years in a fiber-optic network alone.

The Forbes Index

The Consumer Price Index increased 0.5% in June. Th main culprit was a 0.9% jump in the cost of services, component that now makes up more than half of th market basket that is used for the cost of living index. Th home building industry remains in a severe slump. Th latest 12-month total of new housing starts is the lowest has been since April 1983, which was near the end of th last recession. Industrial production increased 0.5% i June. Factories are now operating at 83.5% of capacity, bu manufacturers' new orders for durable goods fell 3.2%.

Other key rates*	Source	Status
Prime rate	Chase Manhattan Bank	10.0%
Auto sales year to date vs. 1989[1]	Ward's Automotive	–4.3%
Index of leading indicators May vs. April	Dept of Commerce	0.8%
Trade balance 12 months ended May 1990	Dept of Commerce	–$104 bil
Producer price index June vs. 1989[2]	Dept of Labor	3.1%
GNP 2nd quarter vs. 1st—annualized growth	Dept of Commerce	1.2%
NBER Experimental Recession Probability Index[3]	Natl Bureau of Economic Research	7.0%

[1]U.S.-based manufacturers, excludes imports, as of 7/20/90. [2]Finished goods. [3]May 1990.

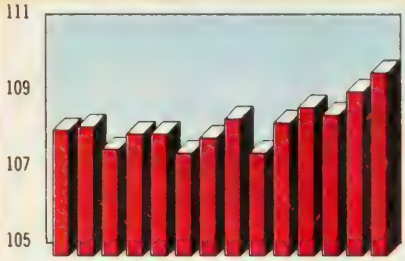
Index Components

The Forbes Index is a measure of U.S economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

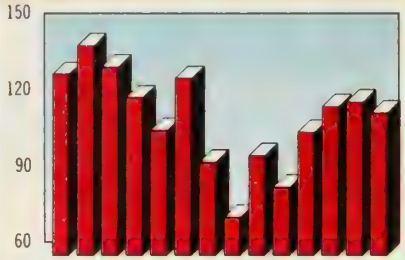
To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

Consumer price indexes (1982-84 average = 100) all urban consumers, unadjusted (Dept. of Labor)

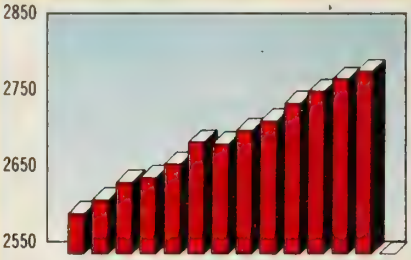
Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)



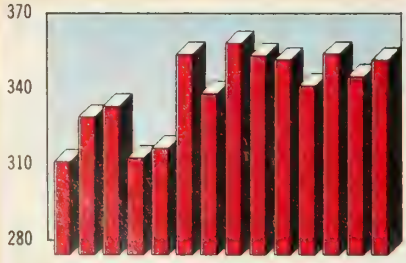
Industrial production index (1987 = 100) seasonally adjusted (Federal Reserve)



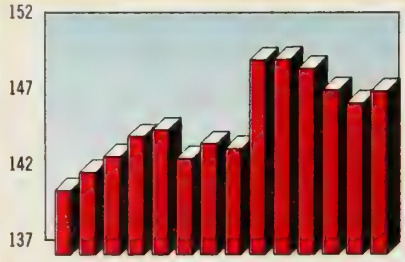
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



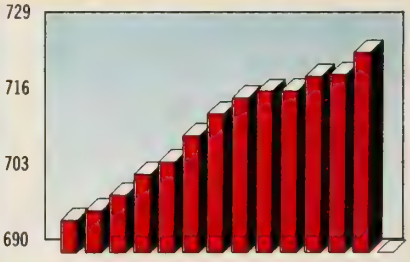
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



New unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)



Retail sales ($billions) seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

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Std. plotter emulation	✓ Yes	No
Font card slots	✓ 2	1
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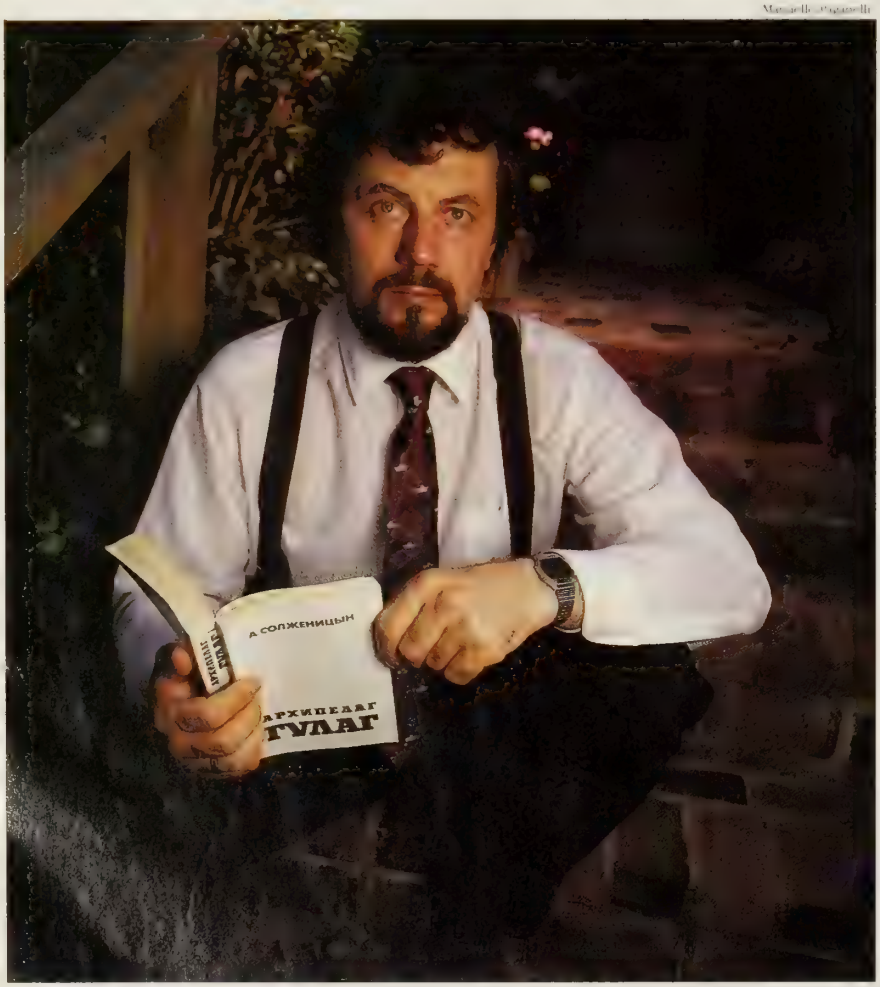
THE Heartbeat OF AMERICA IS WINNING TODAY'S CHEVROLET

A neoconservative party, admiring Konrad Adenauer and Margaret Thatcher, is gaining strength in Russia. You'll be hearing much more from Russia's Christian Democratic Party.

After Gorbachev, who?

An interview with Chairman Victor Aksyuchits



Christian Democratic Chairman Victor Aksyuchits, with Solzhenitsyn's Gulag
After communism, a return to "traditional political values."

By Paul Klebnikov

WITH THE ELECTION of the new Russian parliament this past spring in the Soviet Union's largest republic, the Union of Soviet Socialist Republics is disintegrating and its president, Mikhail Gorbachev, is rapidly losing the last vestiges of his authority. Amid the chaos, various political groups are scrambling for position. One of the most influential and fastest-growing is the Christian Democratic Party, which would be center or right of center even by European or U.S. standards. It wants to do away with socialism entirely. FORBES interviewed Victor Aksyuchits, chairman of the Christian Democratic Party, who visited the U.S. last month to meet with John Sununu and members of Congress.

FORBES: What is your opinion of Western reporting and Western commentary on the Soviet Union?

Aksyuchits: It reflects myths more than the real situation in our country. In Russia, against all evidence, the Western press doesn't see the [true] forces of liberation. Let me give you an example. In February of this year I came to the U.S. and brought with me a declaration from the newly formed bloc, Democratic Russia—an electoral coalition composed of all the democratic forces of Russia. But the American press reacted with complete silence. Can you imagine the American press reacting like that to the estab-

Robert Wallis Sipa

May Day 1990: anticommunist demonstrators carrying Russian and Lithuanian flags
"Russian society, in its vast majority, is democratically oriented."

lishment of Solidarity in Poland or the popular fronts in the Baltic states?

The American media ignored us. Nonetheless, within three months this Democratic Russia bloc had won elections throughout Russia. It gained control in many of the largest cities and brought to power [Russian Parliamentary Chairman] Boris Yeltsin.

Many people in the U.S. feel it's necessary to support Gorbachev to encourage reform and avoid chaos in the country.
The myth that it's necessary to support Gorbachev is manufactured in Moscow by the communist regime. The fact is the main destructive force in the country is the *nomenklatura*, the party apparatus. If one supports Gorbachev, as the head of this *nomenklatura*, that means pushing the country to chaos and catastrophe.

The main aim of the *nomenklatura* is to prevent all change, to protect its monopoly of power. The West, by supporting Gorbachev personally rather than the new forces upon which he could rely, is digging his grave. They have chased him into the corner in which he now finds himself.

People here worry that one of the alternatives to Gorbachev is a fanatical right-wing, anti-Semitic movement.
That is also a myth that has been created in Moscow, by the KGB. The Western press has swallowed it without question. Take [the anti-Semitic group] Pamyat. It represents an extremist-nationalist phenomenon such as exists in practically all societies. But the degree of their influence is being exaggerated by the Soviet regime in order to frighten Soviet society and the world at large with the threat of fascism in Russia.

Isn't anti-Semitism virulent in Russia?
Every year, about twice a year, the party committees and the KGB in Moscow spread hysteria about inevitable anti-Semitic pogroms, and every time these pogroms fail to occur. And what's more, you should note that all the pro-Pamyat and pro-chauvinist candidates lost catastrophically in the latest elections, even though they were subsidized by the KGB.

The Jews are fleeing Russia for a completely different reason. If non-Jewish Russians had the ability to flee, they would flee in even greater numbers than the Jews. They are all fleeing from the regime, from the horrible conditions of life in the Soviet Union. Anti-Semitism is a real, though marginal, phenomenon. But it could assume greater importance in a period of chaos and destabilization.

So much for what you call the myths. What is really going on?
The Communist Party has split right before our eyes [when Boris Yeltsin and other reformers quit the party at the July Party Congress]. New forces, new political parties are being formed whose spectrum is pretty broad.

First of all, there are the reactionaries, the extreme left—the communists. They are joining with the extreme right—the chauvinists. We have an ugly phenomenon called Soviet patriotism or National Bolshevism: the union between those forces. Pamyat, the Stalinists, the neocommunists: They're all joining together.

Then there are the neoconservative parties that tend toward traditional political ideals. That includes us—the Christian Democrats—the Constitutional Democrats, and smaller groups.

The widest grouping is the social democratic spectrum. It includes the Democratic Party, the socialists and all the visible social democratic leaders such as Sobchak, Popov, Yeltsin, Afanasyev, etc. These are mostly reformers who recently left the Communist Party.

We assume the Social Democrats stand for what they stand for in Western Europe: a mixture of capitalism and socialism. What do the Christian Democrats stand for?
The Russian Christian Democratic Party was founded in April. It united various long-standing Christian initiatives: youth organizations, church organizations, cooperatives, publishing houses, etc. The leaders are pretty well-known figures who were recently chosen as deputies to the Russian parliament: Father Gleb Yakunin [the dissident priest, jailed in 1979 for saying that the Church was in the hands

of the KGB] is one.

We have branches in 80 cities across the country. We have representatives at all levels of government: in the Soviet parliament, in the Russian parliament, in the Petersburg [Leningrad] city council, the Moscow city council, and in most of the large cities. Considering we don't even have our own office or our own newspaper, we are growing quite rapidly.

Three months ago I was nominated by the representative of the coal miners from Vorkuta for the chairmanship of the Russian parliament. But after I presented the Christian Democratic program in my speech, I withdrew in favor of Yeltsin.

Our party has three basic theses: First, the priority of Christian and spiritual values in all aspects of life, including politics. Second, fundamental anticommunism, since it is obvious to us that communism is the most radical anti-Christian force in world history. Finally, the third thesis is enlightened patriotism. We declare the need for love for the history and culture of our long-suffering people, but at the same time we reject nationalist extremism and chauvinism.

Russian society is currently searching for spiritual values, rather blindly, but very powerfully. We understand democracy not in a utopian vacuum but in the context of the Christian culture of our fatherland. We mustn't forget that Russia was a Christian country for a thousand years.

As soon as society frees itself from the steel claws of communist totalitarianism, it swings toward traditional political values. It tends to very quickly outgrow the period of pink politics—socialism and social democracy—and moves toward conservatism, to traditional political platforms. The only constructive alternative to communist ideology is a religious-patriotic renaissance. That's why Solidarity won in Poland and the Christian Democrats in East Germany, and why Christian-democratic parties have such great influence in other countries of Eastern Europe.

What are the main differences between you and the Social Democrats?

Right now, in the figures of Yeltsin, Sobchak and Popov, social democracy is coming to power in Russia. But its platform is oriented toward the dismantling of the communist regime; it doesn't have any long-range programs for the transformation of Russia, and because of this it is going to play a relatively short-lived transitional role. Today we are cooperating with the Social Democrats through the Democratic Russia bloc. We are supporting Yeltsin, because he is the clearest embodiment of the dismantling of the communist regime by social democratic forces.

The social democratic program is rather utopian, since it is not grounded in the context of Russian political history and Russian culture. Only our neoconservative party combines the values of democracy with a realistic approach to tradition. In the eyes of the voter, social democracy is still pink. Society has become so fed up with red politics that it instinctively shrinks from pink politics.

Social democracy, when it looks to the West, only sees its material wealth. We, on the other hand, understand that the concept of Western liberalism (in its traditional sense) could only arise as the heir to Christian civilization. Only the conviction that man is created in the image of God makes the individual inherently valuable. It is these religious roots to Western liberalism and civilization which are very valuable to us. Social democracy can only appreciate the material results of Western society.

White Sygma

Soviet coal miners
Fed up with Leninism.

What is your economic program?

I am a philosopher by training, so I can't pretend to speak with any authority on economic policy. But I can tell you that our economic advisers support much more radical privatization than the Social Democrats. Social democracy generally gives a greater share of the national income to the state. We give a greater share to the private sector.

If you privatize the economy and free the market mechanism, some entrepreneurs are going to get very rich and flaunt their wealth very fast.

What's wrong with that? Let them.

What is your attitude toward the various separatist movements in the Baltics and elsewhere?

We support them. All of us are fighting against the same oppressive central authority. Look what happened at the [anticommunist] demonstration on the 1st of May in Moscow. It was filled with Russian [white-blue-red] flags and with Lithuanian flags. The people carrying Lithuanian flags were not Lithuanians but Muscovites. As a sign of solidarity with the struggle of the Lithuanian people. This too was not noticed by the Western press, but it showed that Moscow society and Russian society, in its vast majority, is democratically oriented.

Are there any political figures from Russian or Western history who serve as an inspiration for you?

Of course. In Russian history, first of all, there is Piotr Stolypin [the reformist prime minister of Russia, 1906-11]. Among contemporaries, it's Solzhenitsyn. Solzhenitsyn is not only a brilliant artist but he's also a brilliant political scientist.

We are neoconservative. We feel close to Western neoconservatives: among economists, [Friedrich] Hayek, for example; among contemporary politicians, your President Reagan, Thatcher in England, and others.

We feel closest to the German Christian Democrats of Konrad Adenauer's day. We have a common experience in replacing an evil, totalitarian ideology with traditional values. Out of the more recent politicians, I especially admired Franz Josef Strauss. He, for instance, would never have countenanced what's going on now—Kohl's direct subsidizing of Gorbachev and his regime.

What lies immediately ahead for Russia?

Yeltsin—and society as a whole—will now be demanding a national referendum. If Gorbachev goes peacefully, it will be through a national referendum and elections. If he refuses, then there will be mass disorders, strikes, demonstrations and occasional violent repression similar to what happened in Georgia. But the regime no longer has the strength to engage in mass repressions. We have to remember that in decisive moments, everything happens in the capital. And the capital, through the demonstrations this year, has shown itself clearly to be anticommunist and anti-Gorbachev. ■

If Washington approves, a big bundle of U.S. junk bonds will be transferred to foreign hands. Blame the tax code.

Foreign aid

By Laura Saunders

THE BIDDING FOR Columbia Savings & Loan's $4.5 billion (face value) junk bond portfolio is nearly over. It seems the runners-up are Bankers Trust, which bid a rumored $2.9 billion, and a Salomon Brothers/Odyssey Partners team, which is said to have bid about $2.8 billion.

The apparent winner: Gordon America L.P., a partnership formed by Toronto-based Gordon Investment Corp. Partners include Hong Kong billionaire Li Ka-shing, with 50% of the venture. The Gordon group's bid of $3 billion (plus a "facility fee" up to $50 million) will win the portfolio if—and it's a big "if"—the government's Office of Thrift Supervision okays the deal.

Did the foreigners see something in the junk bonds that their American opponents didn't? Not at all. The extra $100 million or so that they bid is probably best explained by tax advantages the foreigners enjoy. The U.S. bidders would have owed the IRS substantial taxes on the junk portfolio.

The Gordon group has agreed to pay $3 billion, but the terms are incredibly generous: 10% cash down, with the seller (Columbia, and maybe ultimately the U.S. government) taking back a note for the balance; and the note is secured only by the portfolio. In effect, if the value of the portfolio drops more than 10%, the buyer can walk away, leaving Columbia or the government what's left.

In fact, the deal is similar to one that Columbia's former boss, Thomas Spiegel, tried to bring off, but which was nixed by regulators. Spiegel, of course, is the fellow who bought the junk bonds in the first place from his friend Michael Milken, and who paid himself over $25 million during his last few years at the thrift.

What is the Gordon group's tax advantage? Simply that they aren't likely to pay U.S. tax on the Columbia junk bonds' income, thanks to a 1984 law change. It eliminated U.S. taxes on certain foreign "portfolio bond income" to encourage foreign investment in the U.S. So foreigners need not pay income or capital gains taxes on the Columbia portfolio: Hong Kong generally levies no taxes on income earned abroad, and it is easy to use Canada as a conduit to funnel money there.

Losing bidders put the present value of Uncle Sam's forgone tax payments at $200 million to $400 million. Is the government, they ask, putting some money in one pocket while taking more money out of another?

Such questions show a touching and uncharacteristic concern on the part of Wall Street for the health of the federal fisc. But the tax and investment implications of this deal (and those to come) are so complex that regulators should consider them carefully, especially since Uncle Sam may end up owning the debt.

The Treasury Department could, of course, level the playing field by requiring foreign investors to pay taxes on U.S. portfolio debt. But as KPMG Peat Marwick tax expert Roger Siboni says, "In 1984 we decided to encourage foreigners to invest directly in the U.S. without going through tax havens like the Netherlands Antilles."

The regulators, in short, may face the unappetizing choice of losing revenue on the one hand or tampering with international capital flows on the other. It's a complex area, and the last has not been heard on Columbia's junk bond portfolio. ■

Lincoln Potter Stock House

Lesbrada Cantor

Hong Kong billionaire Li Ka-shing and former Columbia S&L boss Thomas Spiegel
Is the big loser Uncle Sam?

Using such refined techniques as "chop stocks," "churn and burn" and "no net-selling," the brokers at Stuart-James carry on in the grand old tradition of separating naive investors from their cash.

Have I got a stock for you!

By Claire Poole

THESE ARE NOT prosperous days for the peddlers of shady stocks. Robert Brennan and First Jersey Securities are long gone, and Meyer Blinder's Blinder, Robinson filed for Chapter 11 late last month. Still very much in the business of selling cheap yet overpriced stocks to naive investors is the Stuart-James Co., but it, too, is feeling the pinch. The suckers just aren't biting the way they used to.

Stuart-James' revenues for fiscal 1990 (ended Mar. 30) were reportedly down to under $90 million, versus $150 million just three years ago, and $114 million in fiscal 1989. It lost a reported $3.7 million in fiscal 1990, as against net profits of $20 million three years ago. It has shuttered offices in Miami, Atlanta, Woodbridge, N.J., New Orleans, Cincinnati, and the Philadelphia suburb of King of Prussia, bringing the count down to around 40 offices and 1,000 brokers, versus 50 offices and 1,300 brokers at its peak.

Adding injury to insult, the National Association of Securities Dealers fined Denver-based Stuart-James and its principals a record $2 million last May for gouging customers. To top it off, the Securities & Exchange Commission has charged the firm with fraudulent sales tactics in a proceeding that should continue through next year. If found guilty, Stuart-James could lose its license, and its officials could be barred from the securities business.

One of the two founders, Stuart Graff, sold out and left the company last September. The other founder, James Padgett, replaced Graff as chairman. Both, by the way, learned the securities business at the feet of master scamster Meyer Blinder.

Padgett makes much of the fact that he has restaffed his brokerage house at the top levels, bringing in people from New York Stock Exchange firms. One of his most recent new hires is David McKearnan, who was lured away from Donaldson, Lufkin & Jenrette a year ago as an executive vice president of investment banking and has an M.B.A. from Harvard University. Says Padgett: "A lot of professionals wouldn't work in pennies. Now that we're in the $3-to-$10 range, the objection is no longer there."

Illustrations by Chas. B. Slackman

To beat the penny stock rap, Stuart-James has been bringing out its underwritings priced in dollars rather than pennies. A recent example was Craftmade International, a Grand Prairie, Tex. ceiling-fan distributor that came out in April at $3.50. "It's difficult to build a solid organization and a solid reputation when you have deals that don't work," Padgett says. "So sometime in 1988 we started to change the kind of companies we tried to underwrite."

Unfortunately, the change is largely cosmetic: A slightly higher price results in fewer shares to be sold but doesn't reduce the market capitalization in total dollars; an overpriced stock is an overpriced stock, whether quoted in pennies or hundreds of dollars. Now, as before, many of Stuart-James' underwritings are of companies too untested to be priced efficiently that other firms probably wouldn't touch: A number of the firm's 1990 underwritings have been of companies with minimal earnings and revenues, and are way overpriced.

One example: NDC Automation, a Charlotte, N.C., engineering services firm that Stuart-James took public last March at $1 a share, reported fiscal 1989 earnings (ended Nov. 30) of $56,000 on sales of $5.6 million in its offering prospectus. With earnings at 2 cents a share, it is trading at nearly 50 times earnings. Medgroup, a Los Angeles company that operates physical therapy clinics, went public in April at $1 a share. With its earnings at 1 cent a share for its 1989 fiscal year ended Mar. 31, the offering price reflects a trading multiple of 100 times earnings.

In a further effort to improve its image, Stuart-James has embarked on a campaign to convince investors and the media that it has cleaned up its act. All this, however, is mere window dressing. Documents from court proceedings and state securities regulators, plus interviews with more than a dozen former Stuart-James brokers, are persuasive evidence that the last of the penny stock kings is still selling plenty of securities of doubtful value to an unsuspecting public.

The key to success in peddling unproven stocks of unproven companies is in the marketing—since the statistics just aren't there. Many Stuart-James brokers are still using the same old sales tricks that got the brokerage firm in trouble in the first place.

Last October, long after Stuart-

James had supposedly changed its ways, Oklahoma state securities regulators examined the firm's Tulsa office as part of a periodic review. A taste of what they found:

In July and August 1989 Stuart-James brokers were pushing a stock called ImmuCell Corp., a Portland, Me. developer of diagnostic testing products that the firm took public in April 1987. Brokers in Tulsa were told that ImmuCell was a "special situation," or what's known in the penny stock industry as a "chop stock." A "chop stock" is a security that is sold out of inventory at a huge markup. Brokers were told the office that sold the most ImmuCell shares would receive a "special compensation"—that is, a bonus on each sale.

Stuart-James brokers put more than 860 customers into ImmuCell at prices ranging from 10 cents to 12½ cents in just ten days. Nearly two-thirds of the trades were marked up 100% or more above Stuart-James' cost—a clear violation of the National Association of Securities Dealers' 5% markup policy, and possibly constituting fraud on the unknowing purchasers, according to the examination report. ImmuCell dwindled to around 3 cents a share before doing a 1-for-100 reverse stock split last month to remain on the Nasdaq system.

Stuart-James stocks, of course, don't always go down. Sometimes they go up. But investors often encounter resistance when they try taking profits. Former brokers, one of whom left the company as recently as June, say they were routinely instructed not to allow customers to sell their shares without first lining up another buyer. This practice, in industry argot, is called "no-net selling." It is illegal.

To see how it works, consider Craftmade International. Craftmade was offered at $3.50 in April 1990 and was up 25% in May. One former Stuart-James broker in an Atlanta office says his regional manager prevented him from selling Craftmade for a customer shortly after the April initial public offering despite the fact that the client would have earned a 30% profit. Says the ex-broker: "We couldn't sell Craftmade if we wanted to keep our jobs." The broker says the client later complained to the manager, and was finally allowed to sell at $3.75—a 7% profit.

Another former broker, this time in Irvine, Calif., tells of a time last year when a client wanted to sell 30,000 shares of Kushner-Locke, an entertainment company whose stock had jumped from around $1.75 to $3.50 in a matter of four days. But when he took the sell ticket to the regional manager, the broker recalls, "He got on the blow horn and said, 'He's dumping on our baby!' Everyone in the office went, 'Boo,' and turned down their thumbs." The manager instructed the broker to call the investor back and persuade him to buy more Kushner-Locke. Now the stock is back down to around $2.

In mid-1989 Huguette Wilson, a 53-year-old widow from Newport Beach, Calif., sent $54,000 from her trust account to a broker in Stuart-James' Irvine office. He put most of it into Disease Detection International at prices ranging from 28 cents at the time to 18 cents by late last year. Never mind that it had never earned a dime. "They pressured me to buy as it was going down, telling me I would double my money," Wilson says. "Then they would not let me sell my shares and close the account." After complaining for months, Wilson was able to liquidate her stockholdings last April, losing more than half of her original investment. She's now looking for a good lawyer.

Frank Lynch, an Atlanta-area businessman, bought three stocks from a Miami-based Stuart-James broker—Warrantech, Kushner-Locke and Greenstone Rabasca Roberts. Before leaving for a three-week honeymoon in Europe last summer, Lynch instructed his broker, Gregory Prato, to sell his holdings only if a stock fell 10% or more from its high.

When Lynch returned to Atlanta, he opened a statement from Stuart-James to find that Prato had sold all of his Warrantech warrants plus all of his Kushner-Locke and Greenstone stock—none of which had gone down by 10%. In fact, Kushner-Locke had gone up, to $3.50 from the original price of $1. Prato, however, had put Lynch into three new securities—ImmuCell, Preferred Homecare and Europa Cruises—none of which Lynch authorized, all of which were sponsored by Stuart-James. And worse, five days after Prato sold Lynch's 2,500 shares of Greenstone, he bought them back plus 7,100 more at a 10% higher price. The new stocks all tanked. Even with gains on the stock Prato sold, Lynch lost $2,000.

Lynch contacted Georgia state securities officials. In May Prato was suspended for 30 days and fined $5,000. Lynch says Stuart-James offered him $42,000 worth of Kushner-Locke stock to replace what he could have made on his investment, but he refused. Instead, he plans to file suit against the company. "As far as I'm concerned, I'll spend the $42,000 to hang them out to dry," says Lynch.

Stuart-James brokers have a technique called "swapping clients." A former broker at the Woodbridge, N.J., Stuart-James office remembers conference room "swap meets" in which reps traded their customers' names. The brokers would call their new customers, bad-mouth the original brokers, then get the investors to sell their holdings and buy into a new bag of Stuart-James securities. This was often done near the end of the month to help an office report higher gross commissions and put a little extra cash in the brokers' pockets. In the picturesque lingo of penny stock brokers, this is known as "churn and burn."

Take, for example, Randy Caparco, a Selden, N.Y., investor who is a member of one of two class-action suits filed against the firm in the last few years. According to the suit, in February 1989 Caparco bought $22,500 worth of two stocks—Environmental Diagnostics and Continental Ventures—from a broker in Stuart-James' office in Melville, N.Y. When the broker kept pressing him to buy other stocks, Caparco complained to the office manager. The calls stopped.

But a month later another Stuart-

James salesman called Caparco. This new one said he was the office manager and, unlike the previous broker, was "a real professional" who had "solid information." After repeated calls, the salesman convinced Caparco to sell out of the other two stocks—at a $9,300 loss—and buy 500,000 shares of Celerity Computing at 2½ cents a share, promising rosy returns. The broker told Caparco he'd be able to buy his wife "a swimming pool" with the money he was going to make. Today Celerity is trading for less than a penny. Caparco's losses so far: $22,000.

Note that most of these episodes occurred only last year or this year. Does this sound like the record of a company that has truly turned over a new leaf? It doesn't to us. ■

Legendary fund manager George Soros is trying to turn bad investments into solid value. Meet Mr. Fixit: Raymond Wechsler.

Pulling Sharon Steel off the scrap heap

By James R. Norman

WHEN YOU MANAGE a $2.1 billion worldwide portfolio of stocks, bonds and futures contracts, you're bound to have a few goofs—even if you are George Soros.

The per-share value of his overseas-based Quantum Fund has tripled in the past five years, keeping aloft Soros' reputation as having one of the hottest hands in money management.

Robin Thomas

George Soros (right) and Raymond Wechsler
Salvaging sweet deals from investments gone sour.

But this hasn't saved Soros from being stuck with junk bond positions that have turned into major equity stakes in a few troubled companies. The biggest of these is Sharon Steel Corp.—formerly controlled by Victor Posner—which has been in Chapter 11 for three years. Quantum holds $105 million of Sharon bonds, which have paid no interest in five years.

Having already taken his writeoffs, Soros could just walk away, as most money managers would. A trader at heart, Soros normally wouldn't want to get involved in the salvage and bailout business. But with the help and encouragement of key adviser Raymond H. Wechsler, a determined junk fixer, Soros is now poised to take over and fix up Sharon, as he's been trying to do with $50 million in other bad investments. Thus he joins the ranks of bondmailers—junkholders who refuse to let managements walk all over them (FORBES, *Aug. 6*).

FORBES has learned that Soros is close to finalizing plans to invest at least $20 million in cash in Sharon to bring it out of Chapter 11. The plan could be voted on by creditors as early as this fall, and would give Soros effective control of the nonsteel portions of Sharon. These consist of Mueller Brass Co. and various mineral properties with $500 million in revenues. The steel units, with $540 million in annual sales, would be sold to Castle Harlan Inc. for $300 million in cash, debt and assumed liabilities. Unsecured bondholders and trade creditors could get just over 30 cents on the dollar for their $600 million or so of claims. Workers would keep

Jook Leung

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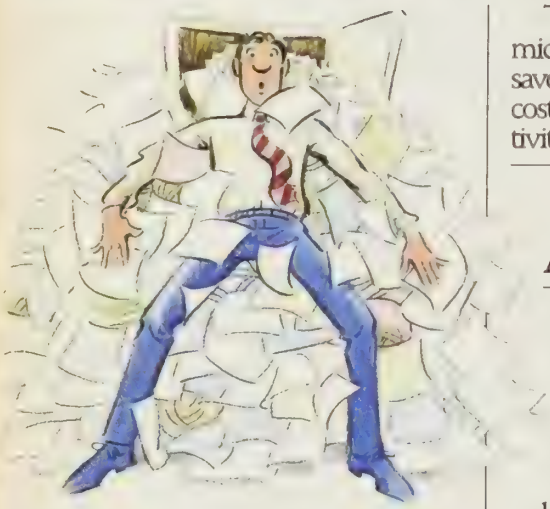

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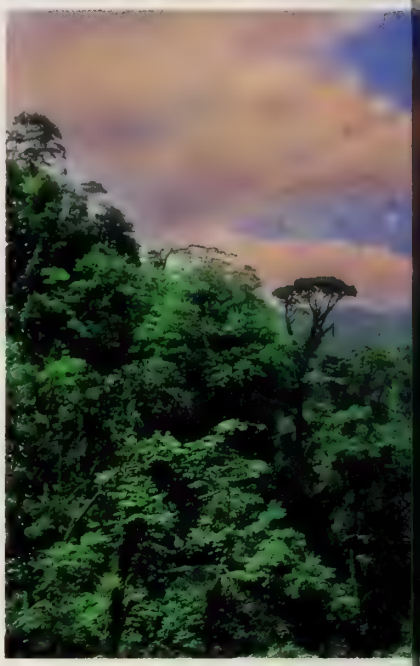

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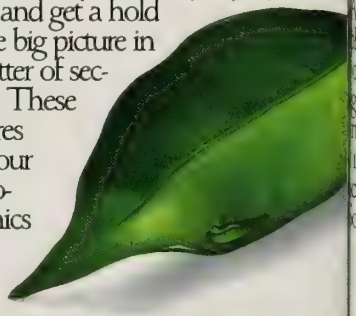

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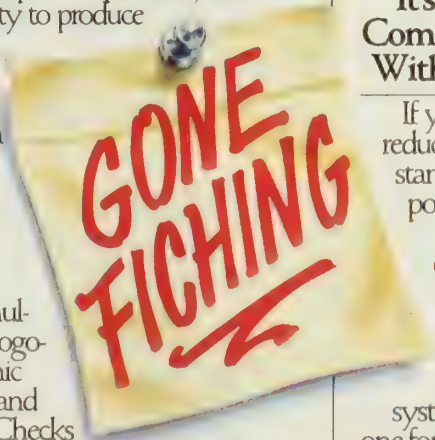

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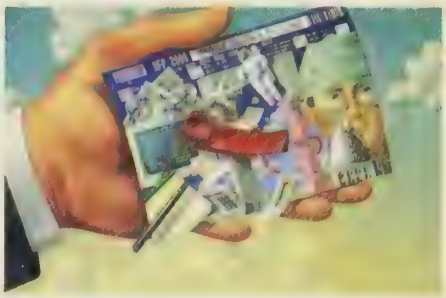

THE IMAGE OF THE FUTURE.

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their jobs and pensions.

The main architect of all this is Wechsler, 45, who would be chief executive of the nonsteel remnants. He is the ex-RCA and AT&T finance man brought in to run moribund United Press International in 1984. He made the news service turn its first profit in 23 years with 20% pay cuts and 15% layoffs. Then he put UPI into Chapter 11. He left UPI when it was sold.

Since then he's been turning heads and stepping on toes in the bankruptcy business. Critics call him an egomaniac and an irritant for his independent efforts to prod along the bankruptcy process. "In some ways Quantum has screwed things up," gripes Sharon trustee Franklin E. Agnew: "We might be further along" on labor talks, asset sales and steel profits. Still, he says, "I admire [Wechsler and Soros'] sense of purpose."

Wechsler met Soros while working on a Chapter 11 plan for the Victoria Station restaurant chain, in which Soros was the main secured lender.

At the time, Soros was looking for a workout pro to evaluate a series of problem oil and steel investments dating from the mid-1980s. These included nearly $20 million in oil and gas promoter Kenai Corp. and upwards of $15 million in troubled oil and gas producer Crystal Oil.

Wechsler's first assignment: Houston-based Kenai. Once a $100 million oil well promoter and driller, it was struggling to emerge from Chapter 11 in the name of its tiny oil tool repair unit, ERC Industries Inc. Wechsler convinced Soros to put in $3 million to pay off creditors and take 51% control. Since it went public early last year, ERC's over-the-counter shares have jumped to around 1¾ from 25 cents, and Soros is close to recovering his total investment. Wechsler is now chairman and chief executive, drawing $15,000 a month in fees, and shopping for an acquisition.

Next, Soros installed Wechsler on the board of Crystal, where one of Wechsler's first jobs was ousting the chief executive this February. Soros combined Crystal for a time with Harkin Energy Corp. but last year swapped his Harkin stake for 72% control of Crystal. The company is profitable again, on $29 million of revenues last year. But without a major acquisition, it has no hope of using $246 million of tax losses.

Crystal's shares trade at just over $2—barely above their alltime low. "If Soros is not underwater, he sure hasn't made much," says John C. Boland, publisher of *Bankruptcy Values*. Still, Boland thinks Crystal could turn out to be a winner for Soros. Goldman, Sachs was recently hired to look at a possible sale of Crystal. But Wechsler has convinced Soros to hang on, look for a major acquisition and wait for higher oil prices.

Wechsler has also joined the board of another Soros problem child: Baltimore-based chain Jos. A. Bank Clothiers. The 39-store upmarket retailer is swamped with about $85 million of debt from an overpriced 1986 leveraged buyout. Soros bought some o that initial debt, then put in $11 mil lion more equity last year. Now he' stuck. Wechsler is mum on what' ahead for Bank, but all signs poin toward a major shakeup.

No question: There's going to b lots of money made unraveling som of yesteryear's overpriced and overle veraged deals. With Wechsler as hi hatchet man, George Soros is bidding for a piece of the action. ■

Japanese banks can raise debt capital here more cheaply than most U.S. banks can. Make no mistake, the Japanese bankers intend to press that advantage.

A yen for U.S. capital

By Howard Rudnitsky

As if American banks didn't have enough headaches, now they will find themselves competing to raise funds in U.S. capital markets against giant Japanese banks.

Recently Sumitomo Bank, the world's third-largest bank, with $407 billion in assets, raised $500 million through an issue of ten-year subordinated notes in the U.S. The annual interest rate was a low 9.55%. Large U.S. banks like Chemical Bank or Chase Manhattan pay over 11% for long-term debt capital. The Japanese advantage comes at a time when federal regulators are urging U.S. banks to raise their capital to exceed 8% of assets by 1992. Raising that capital will be a tough task for a number of big U.S. banks, some of which now have capital of less than 8%.

John Segal

Over the next few years, about ten Japanese banks are expected to raise several billion dollars in debt in the U.S. The Japanese can use this lower-cost money to expand their U.S. operations. In fact, Japanese banks intend to open or expand 27 offices in 13 U.S. cities, according to an internal memorandum that was issued by Japan's Ministry of Finance and obtained by the trade paper *American Banker*.

Why raise long-term capital in the U.S. when Japanese banks can raise capital at cheaper rates in Japan? One reason: The decline in the value of the yen this year has, in effect, shrunk the value of the yen-denominated capital the Japanese hold against their U.S. banking assets. By raising capital in dollars in the U.S., Japanese banks can minimize the effect such currency swings have on their capital ratios. Moreover, because of recent declines in the Japanese stock market, the Ministry of Finance wants Japanese banks to raise money outside Japan rather than at home. No sense depressing Tokyo stocks any further. ■

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Northern Virginia Electric has an outstanding growth record. It doesn't hurt that the federal taxpayer subsidizes both the company and its customers.

Nobody here but us farmers

By James Cook

HARRY K. BOWMAN, 64, the brusque, expansive boss of Manassas, Va.'s Northern Virginia Electric, runs one of the best-performing outfits in the U.S. utility industry. Over the last five years, when industry revenues have grown barely 18%, about in line with inflation, Novec's revenues have risen by nearly 80%, to $110 million, its customer base by 53%, to 66,000, and its equity by over 200%, to $56 million.

Novec is lucky, of course. It serves a 700-square-mile area 30 miles southwest of Washington, D.C., on the far side of Dulles International Airport. As the government and the lobbying apparatus that deals with the bureaucracy have grown, so has Novec. "We're a bedroom community for metropolitan Washington," Bowman says. Washington has been among the fastest-growing metropolitan areas in the U.S. Development in Novec's service area is so rapid, in fact, that many of its power failures come not from natural phenomena—fire and flood, snow, rain and sleet—as they do for most electric companies, but from contractors' backhoes and bulldozers cutting into Novec's underground power lines.

Too bad investors can't share in this growth, for Novec is a cooperative, not a public company. Novec doesn't really have customers, it has members—66,000 of them. Anyone who wants to hook up to Novec's 3,700-mile distribution system—suburban householders and industrial customers alike—has to join the cooperative and pay a $10 membership fee. Novec members get their power substantially at cost, and whatever excess of revenues over expenses the company builds up goes to build company equity. Novec's members, therefore, are not only Novec's customers but also its owners, and they oversee the company's direction through a ten-member volunteer board currently headed by President J. Manley Garber, a local real estate developer.

Periodically, Novec pays a dividend to its members in proportion to their

Putting power lines underground in a Northern Virginia Electric development
What are storm, fire and flood compared to a contractor's backhoe?

Photographs by Paul Fetters

Novec General Manager Harry [illegible]
Subsidies plus suburbia equaled explosive growth

power consumption as a tax free return of capital. But the payout is a pittance, running to less than 5% of net over the past five years. What matters is what Novec's members have to pay for power, and Bowman's job is to keep it as competitively priced as possible.

Why this unusual form of ownership? Northern Virginia Electric is typical of the thousand or so rural electric cooperatives that have been created since 1935 as a means of bringing power to rural districts too sparsely populated to attract the attention of the investor-owned companies. Of course, its area is no longer either sparsely populated or rural, but Novec is a holdover from the days when it was both. The co-ops are exempt from federal income taxes, and they live off low-cost loans from the Rural Electrification Administration. In short, folks in the Novec area live off indirect federal subsidies—eating at the taxpayer trough, like most of the Washington metropolitan area.

Not all electricity co-ops have enjoyed this kind of growth, of course. But most rural areas now have electric power, and cooperatives now account for over 10% of the U.S.' power, serve over 25 million customers and generate over $20 billion a year in revenues.

Unlike most co-ops, Novec could probably have made its way as an investor-owned company. After all, it got going in 1939 by buying a privately owned generating company. So in Novec's territory, Novec is doing the job that under other circumstances would have been done by investor-owned companies.

As a cooperative, Novec has some clear competitive advantages. There's the income tax exemption—though when effective utility tax rates may average as low as 15%, that's a fairly modest edge. Novec's real advantage is its access to financing. Novec borrows 70% of the money it needs from the REA at the 5% rate established in 1972. The rest it gets at market rates—currently 9.75%—from a cooperative bank the U.S.' operating co-ops set up 20 years ago to supplement the REA's financing. The result is that Novec was paying around 7% last year on its debt, versus 9% for the investor-owned industry, and doing so with a debt load that would terrify most investor-owned utilities. With only membership fees and retained earnings for equity, Novec's debt is a good 70% of its capitalization, versus under 50% for the industry's, and that's down from 80% only five years ago.

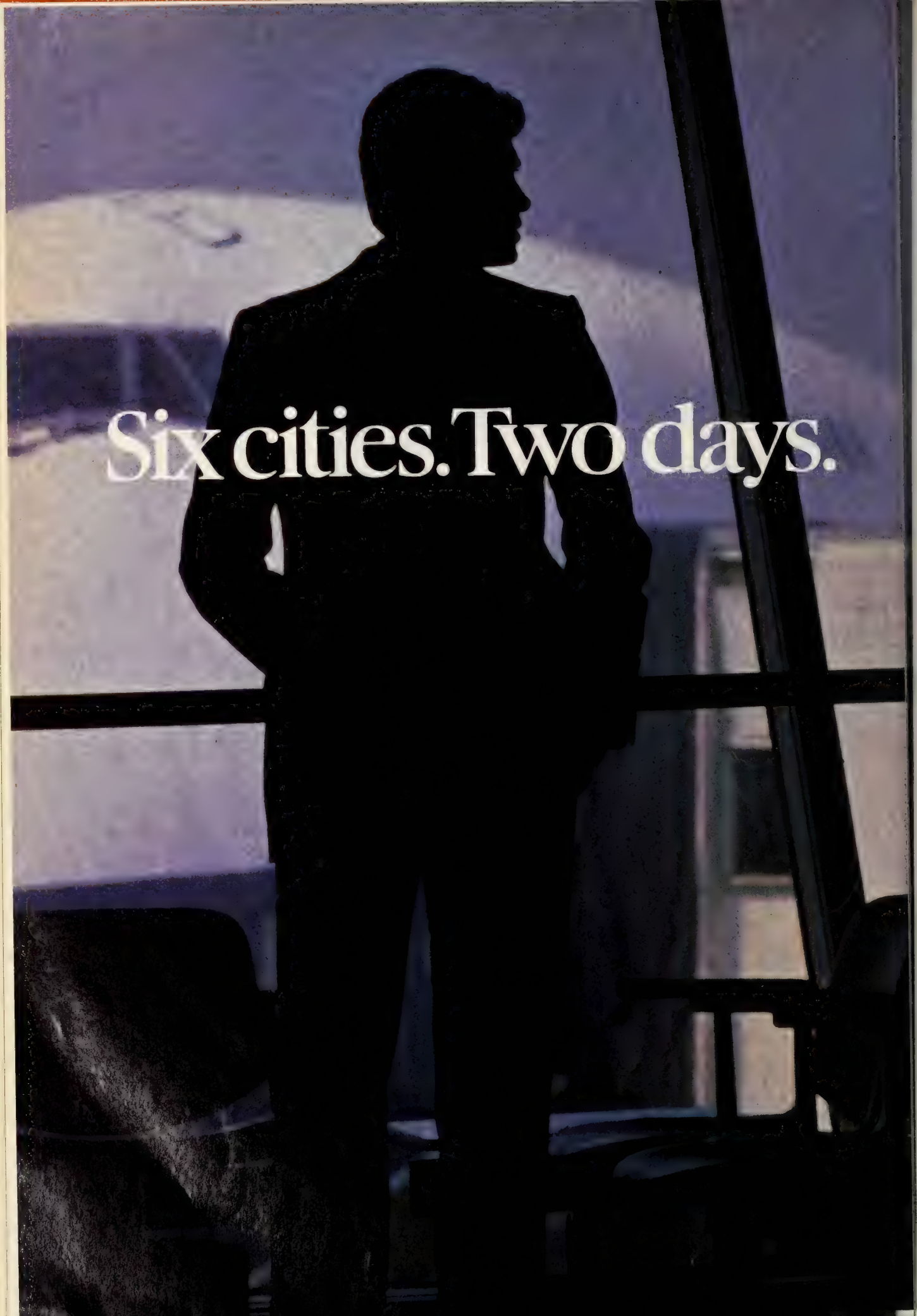
Novec Board President J. Manley Garber
Where the customer is the owner.

Do these tax and interest subsidies from the taxpayer guarantee lower rates for Novec's customers? In fact, no. Last year its average residential rate was about 8 cents per kilowatt-hour, 11% above what neighboring but privately owned Virginia Power was charging.

As a distribution company, Novec has only limited control over its costs. It buys almost all of its power from a power supply cooperative, the 12-member Old Dominion Electric, which Bowman happens to chair. Old Dominion in turn buys 80% of its power from neighboring utilities like Allegheny Power and Potomac Electric (at a cost of 44.8 mills per kwh), derives the rest (at 31.5 mills) from the 11% interest it holds in Virginia Power's North Anna nuclear power station and sells it (at a blended rate of 41.5 mills) to its member customers. By 1993, when an 800,000-kw coal-fired plant it is building in partnership with Virginia Power goes into operation, Old Dominion will reduce its dependence on outside suppliers from 80% to 60%.

"I don't think there's any question that a lot of utilities would like to take us over," Bowman says. But he doesn't intend to let this happen. He has lived most of his life in the cooperative movement. His father worked for a contractor who built a rural distribution system for a co-op in Vermont, and he stayed on to run the operation. After a stint in the Army and an electrical engineering degree from the University of Vermont, Bowman himself got a job with one of Novec's predecessor companies in 1949.

A few years back critics complained that Novec no longer served a rural area and so was no longer eligible for low-interest REA loans. But it's easier to put an outfit on the public subsidy roll than it is to get it off, and Novec's subsidies and its odd form of ownership seem secure. ■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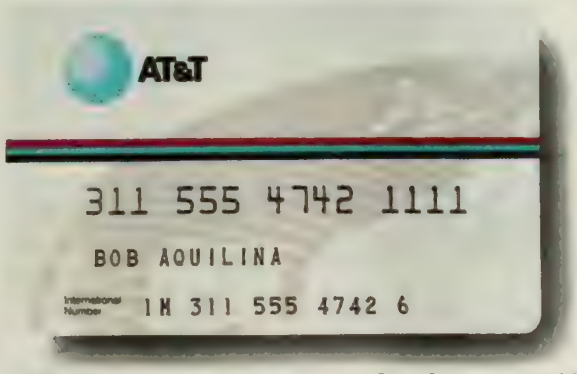

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Georgia's Synovus Financial Corp. is coining money by processing credit card accounts for other banks—and for the banks' very big competitor.

Backwater bliss

By Janet Novack

Is Columbus, Ga.'s rapidly growing bank holding company Synovus Financial Corp. a Trojan horse for AT&T's attack on the commercial banks' credit card business? So claim a number of big banks, and not without reason. In March the telephone company introduced its Universal Credit Card, which combines an AT&T calling card with a Visa or MasterCard.

By the end of this year, one Synovus subsidiary will have opened and another subsidiary will be processing more than 2 million Universal Card accounts. Noted a recent issue of the trade paper *American Banker*: "Many observers see Synovus as a co-conspirator [with AT&T] within the banking industry's ranks." Citicorp and Chase Manhattan have even filed complaints with the Federal Communications Commission and the Federal Reserve, charging the Synovus/AT&T deal violates various federal laws.

Should the deal be found illegal, AT&T has contingency plans—plans that keep the processing business with Synovus. And even before it snared AT&T, Synovus had turned back-office bank card processing into a little gold mine accounting for more than a fourth of its earnings.

The card processing work is done by Total System Services, Inc., a Synovus subsidiary that was spun off as a separate company in 1983. Total System (1989 revenues, $66 million) trades on the New York Stock Exchange, where it is valued at $550 million, around 46 times earnings. Synovus owns 82% of Total System, which is a big part of why the $2.8 billion (assets) bank holding company itself has been trading for 16 times earnings and 2.6 times book value, in a market that values the average bank at about 9 times earnings and 1 times book. Synovus' market value is about $560 million, which includes, of course, its 82% share of Total System. AT&T has a minimum five-year contract with Total System for account processing and an option to buy new stock from Total System that would give it 8.6% of the company

Rob Nelson/Black Star

Total System's Richard Ussery
AT&T's co-conspirator?

Even before AT&T signed up, Total System processed transactions, issued statements and embossed cards for 16 million accounts, including cards issued by such big names as NCNB, General Electric Capital Corp. and Prudential-Bache. In the bank credit card processing business, only American Express, which processes 27 million accounts, is bigger.

Synovus' high stock price has helped Chairman James Blanchard acquire a slew of small banks and some savings and loans. Blanchard aims to grow beyond Georgia, Florida and Alabama into Tennessee and the Carolinas, and to more than triple Synovus' assets, to $10 billion by 1995. But he won't pursue that goal at all costs.

"If we're running the company just to get to $10 billion, the odds are better than 50-50 we'll fail," he says. "If we're $4 billion or $5 billion at the end of five years, I'm not going to feel like we've got to apologize if we're still performing well."

Most of the 28 banks that Synovus has bought since 1984 have kept their local names and managers while building market share. Blanchard knows firsthand the value of a good local name. His father was president of Columbus Bank & Trust in the late 1950s and 1960s. After he died, in 1969, bank directors wooed Blanchard—then a 28-year-old lawyer without banking experience—to take over. "I think not being a banker was a real plus" in strategic planning, says Blanchard, who has been quick to jump at new opportunities; he encourages his colleagues to do likewise. (Columbus Bank's holding company changed its name last year to Synovus, a conjunction of "synergy" and *novus*, Latin for "new.")

Through this enlightened opportunism was Total System created. In 1966 Columbus Bank bought its first computer and recruited the likes of teller Richard Ussery, now president of Total System, to learn programming on the job. The bank wrote and sold its own software. In 1974, when a Florida banker mentioned the fat fees his bank paid for credit card processing, the Georgians' eyes lit up. They saw that with telecommunications advances, their location in a remote but relatively cheap labor market was ideal for a back-office operation.

Synovus Vice Chairman H. Lynn Page concedes that it's going to be "hard to hold" Total System's current 15%-plus after-tax profit margins as General Motors' EDS and others aggressively enter the card processing business. Still, volume increases will help, since Total has been investing heavily in new facilities. By 1995 Total System aims to process 40 million accounts. The Universal Card alone has enormous potential: AT&T has a base of 22 million consumer calling card accounts.

Can Synovus handle this gush of coming new business? Paul Kahn, AT&T's Universal Card chief, seems to have no doubts. "Don't be fooled by their accents," says Kahn of the fellows who run Synovus and Total System. "They're good old Georgia boys, but they're sharp." ■

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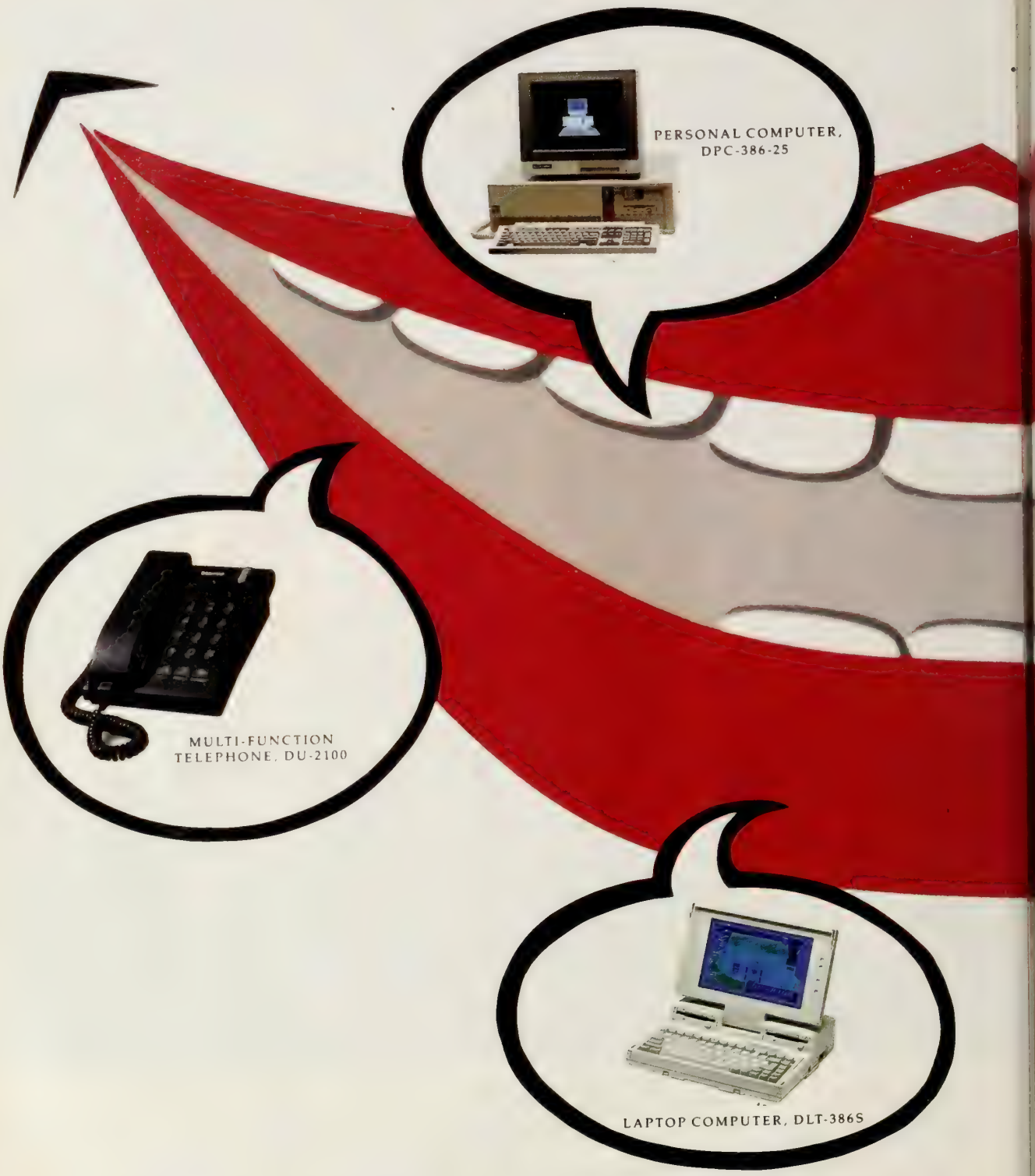

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THE GAME'S NOT OVER

By Michael Novak

It was quite a surprise to open the London *Sunday Times* a couple of weeks ago and find a nasty attack on a FORBES column of mine *(Apr. 30)*. I wrote that Professor Paul Kennedy of Yale, in his theory of "imperial overstretch," could not have been more wrong in predicting American decline; because the American idea of liberty is on the rise.

That irked Professor Kennedy, who rejoined: "The democratic freedoms that are being regained in Eastern Europe, or gained for the first time in the Third World, are not more American than they are French or Norwegian or Australian." But isn't the number one idea in Western Europe in the 1990s "federalism"? The practical working out of this concept, Lord Acton wrote, is one of America's greatest contributions to the history of Liberty. And isn't the great crisis of Eastern Europe today the "nationalities question"? Regarding pluralism, the smaller, more homogeneous nation-states of Europe have less to teach than America does. And about enterprise, initiative and risk, do Western European socialists or Americans have more to teach?

In the same vein, many years ago, my father gave me good advice: "Never bet against Notre Dame or the United States of America." I took him to mean that spirit counts for something. By contrast, Mr. Kennedy counts mostly military and economic power, which today are losing salience. Other classic forms of power—let us call them faith, ideas, morale, spirit, vision, culture—are gathering force. These shifts in the meaning of power give us a framework for evaluating America's imminent future.

Beginning in 1945, it was the role of the U.S.—a role neither coveted nor chosen but thrust upon an isolationist nation—to preside over the greatest transformation of the political economy of this planet in world history. Decolonization would be one theme. Liberation from poverty through capitalist economic development would be a second. The building of democratic republics would be the third theme. (I say "democratic republics" to insist upon the protection of individual rights and to avoid the tyrannies implicit in "one man, one vote.")

The linchpin of the U.S. strategy after World War II was to build up its two fiercest former enemies, Japan and Germany, by imposing upon them systems designed along democratic capitalist lines. The idea was that a worldwide network of such systems would fashion a positive-sum world, in which the advance of one nation would not beggar the others. On the contrary, as each war-leveled nation recovered, it would contribute to the wealth of others, by both its own production and its new markets.

The implication of this scheme was that the relative standing of the U.S. as an economic and military power would decline as the other great nations rose from the ashes. This relative decline would not be a defect. It would be a triumph.

Professor Kennedy notwithstanding, the enduring American ideal has not been to become a great power in the old-fashioned imperial sense. The enduring American ideal has been to construct a *Novus Ordo Seclorum*—a new order of the ages—constituted along the lines of the three great liberties dear to the American experiment: political liberty, economic liberty and moral-cultural liberty. Call this mysticism, if you like, or "soft" power.

But as you have watched Chinese students in Shanghai carry a replica of the U.S. Statue of Liberty, listened to a brewery worker in Prague quoting from Jefferson and watched dissidents in the 15 republics of the U.S.S.R. voice dreams of new democracies, free economies and liberties of conscience, surely you have been tempted to think that this is the one kind of power most consistent with the purposes for which the U.S. was founded.

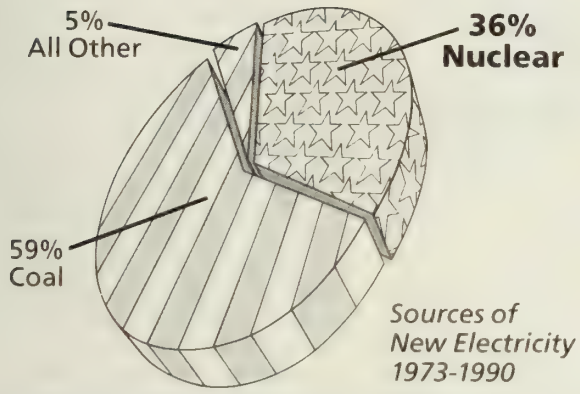
The declinists have also forgotten that the U.S. is an extraordinarily religious country. In one opinion poll, 75% of Americans said that religion is a "very important" or "somewhat important" part of their daily lives. In its religious seriousness, the U.S. has much more in common with the Third World than with the highly secularized populations of Western Europe and Japan. Leaders in our business community, incidentally, are among the most religious of our elites—far more so than professors or journalists.

In brief, some of us see many resources in the American spirit yet to be tapped. We recognize that in the last 30 years, during "the Age of Permissiveness," there has been a serious erosion of the nation's moral and religious strength. In the ancient language, "We have sinned," and we are paying for our sins: More hedonism and debt than are good for us, less serious study and disciplined achievement than we are capable of.

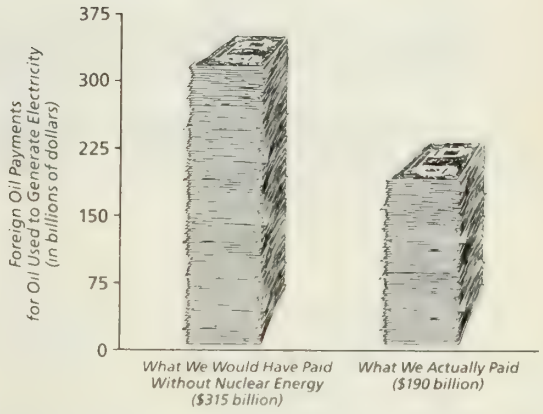
This decline lies not in our stars but in ourselves. The reason not to bet against Notre Dame is that its greatest victories come when it is losing. So do those of the U.S. ■

Philosopher, journalist and ex-U.S. ambassador Michael Novak directs social and political studies at the American Enterprise Institute in Washington, D.C. His book The Spirit of Democratic Capitalism *has been widely translated around the world.*

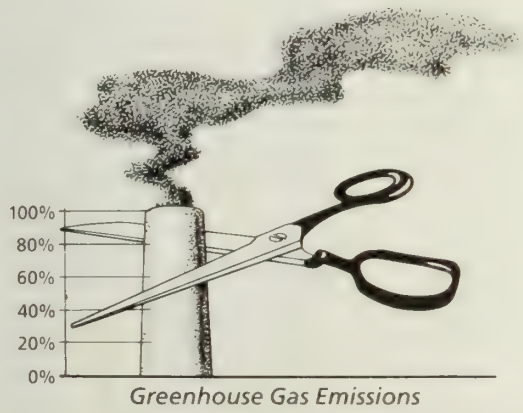
The growing returns on America's investment in nuclear energy.



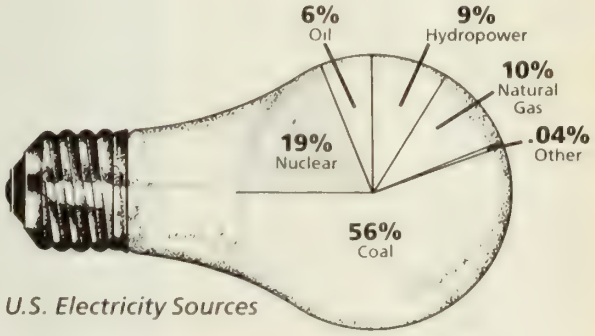
Since 1973, nuclear energy has supplied more than one-third of the new electricity used by a growing U.S. economy and population.



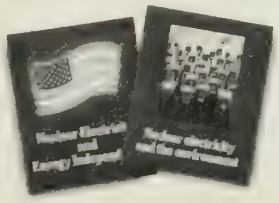
Since 1973, nuclear energy has cut America's foreign oil payments by $125 billion, and continues to save $13 million a day.



Nuclear energy cuts greenhouse gas emissions from utilities by 20% and helps reduce airborne pollutants by over 19,000 tons every day.



Nuclear energy is our second largest source of electricity, enough to light over half the homes in the U.S. Growing needs call for even more.



For more information about nuclear energy, write:
U.S. Council for Energy Awareness, P.O. Box 66080, Dept. II09, Washington, D.C. 20035.

1990 USCEA

In his first interview since retiring as head of Ford, Don Petersen ruminates on industry's ills and his achievements and failures.

We need manufacturing people at the top

By Jerry Flint

IN THE EARLY 1980s Donald Petersen rescued a floundering Ford Motor Co. by presiding over the bringing out of new lines of cars that appealed to buyers' tastes and by making profound changes in Ford's corporate culture. Says he, "Tauruses will come and go, but, to me, the most important single thing that I did at Ford was to try to change the way people work together."

Petersen, 63, took early retirement this year at the peak of his career and with Ford restored to health and vigor. FORBES interviewed him recently in his temporary office, provided by Ford, in Dearborn, Mich., not far from the "Glass House" headquarters where he ruled during the 1980s. Petersen hasn't fully unpacked his rock collection, but there are a few stones around—a topaz, a sapphire—as well as several mementos: the clock from the Cleveland casting plant and mounted butterflies such as the Nigerian papilio zalmoxis, its blue-green-black wings about five inches spread.

Ford's management tradition, pre-Petersen, was generally "cult of personality," from Henry Ford himself to his grandson, Henry II, from Robert McNamara, who ran the company before becoming Secretary of Defense in 1961, to Lee Iacocca, Ford's president in the 1970s, men cut from the same cloth. They were powerful, demanding leaders. Ford's executive suite was known as a brutal place. Given a mission, a Ford man came back with his shield—or upon it.

Petersen's goal was to replace one-man rule with team participation throughout the company, from the factory floor to the executive suite. "I had enough bad experiences in my very early years, watching others being treated in what I know is a very bad way by superiors. That gave me a lot of trouble personally.

"Then at midcareer I had a very refreshing experience. I went to the truck operations. Fast-trackers didn't go there then. It was people who were seen as okay, but not fast-trackers, so let's put them in trucks.

"The pleasant experience was there was a high level of stability. People got along extremely well. I think they perceived themselves as not necessarily going to go anywhere or go very far, so let's enjoy. Let's make a helluva good truck and let's enjoy ourselves while we're at it.

"They did leave us alone to a very large extent, and that meant we were able to work in a more informal atmosphere. It got rather hard to know who was the engineer and who was the financial guy and who was the personnel guy. Everybody spoke to the issue that was on the table. So that was an extremely good affirmation for me of how constructive it is when people work together and really believe they're part of the team."

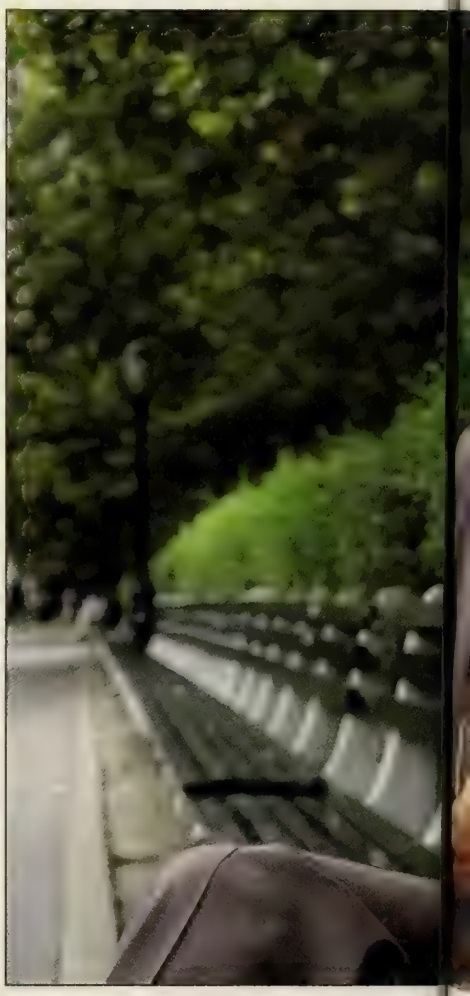
What about naked ambition? Isn't that part of what drives business?

"I have seen more careers flame out because people were unable to work effectively with peers than any other reason. I have rarely seen someone stop his rise and level off or even go down and said to myself that it's because he didn't have intelligence, or didn't have the knowledge. It's almost always because he could not work effectively with people. Time and again, that's personal ambition, the pattern of trying to be the one that looks best in any given situation."

An emphasis on teamwork rather than individual ego-tripping would, Petersen thinks, help restore U.S. industry to its onetime eminence. But he sees another serious problem handicapping Ford manufacturing. "When you ask me what things did I leave without a really good solution, I would say we still take too much time and too much money to get to the starting gate with new products."

Indeed, that's where U.S. industry lags furthest behind the Japanese these days. In Detroit it can take up to six years to get a new car out, and the price has become prohibitive; Ford's new Escort, for example, cost $2 billion. The Japanese seem to push one out in half that time for far less.

Petersen believes one reason the Japanese are so much faster is that



they do more detailed work in the conceptual stage, the thinking-about-it stage. "That's the inexpensive time to make changes, before you start engineering and manufacturing. Too often, American manufacturers get a whoops too late in the game."

A whoops?

Petersen explains. " 'Whoops, we just ran a test and we find the car isn't strong enough in the front structure.' If you start to run into whoops as you are getting into production, it hurts. It's not just that you have to throw a bunch of machine tools away and start all over. But maybe even your plant layout is no longer efficient. And you have already started to buy machinery. So then the choice is tough: Move ahead as is and settle for an inherently inefficient layout, or back up and spend some very difficult money on redoing the facility?"

Petersen also wishes he had pushed harder on developing new engines and transmissions. Here again, the Japanese have a major advantage over American carmakers. Their small, four-cylinder engines are smooth and peppy, ideal for the small cars they build. Petersen says that the American carmakers had their hands full during the oil crisis years just downsizing their heavy cars. The Japanese were already making smaller vehicles, so they began developing better technology. But the fact remains, 17 years after the first fuel crisis, the U.S. carmakers still do not build such impressive small engines. Says Petersen, "Now we are playing catch-up."

What makes it harder to catch up is that the U.S. is losing the war to retain its manufacturing base, and that could mean losing research strength. "Manufacturing is the great consumer of new technology. It's also the base for the lion's share of the research and development that any country does. By far the largest nongovernmental, nondefense research and development flows from the manufacturing sector. If manufacturing fails, moves to another geographical location, almost inevitably, there is an erosion within that starts on the research side, the technical and engineering side."

What's happening now?

Alan Dickow

Retired Ford Chairman Donald Petersen
"We still take too much time to get products to the starting gate."

"I think we're still losing. That doesn't mean we're inferior or we're now second to somebody else. But I think we're declining in the overall strength of our manufacturing sector." He favors tax incentives to encourage more research and development spending. He would also like investment tax credits that would drive down the cost of capital invested in new plant and equipment.

But he sees the problem as being as much a matter of attitudes as of finances. To raise manufacturing efficiency, Petersen thinks U.S. firms should promote more manufacturing-type people to top jobs. Petersen may be prejudiced: He is an engineering graduate of the University of Washington with an M.B.A. from Stanford. But he speaks from experience:

"We need to see more concerted effort to move what I think of as the doers, the manufacturing people, into higher positions. I think we have to give more importance to that role, right from the day we go to the campuses to do hiring. Today the top dollar goes to consulting, investment banking, financial endeavors of various sorts. Then you have a sharp drop in salary level before you get to the operating kinds of jobs: manufacturing, engineering, sales. We have to mean it when we say this is extremely important, and one way to mean it is to offer rewards.

"I tried hard to express my opinion [while at Ford] that the people in these fields need to be pushed far faster, given more importance, to be seen within the organization and have more authority."

The problem is the classic one of staff versus line, he says. "As people go through an organization, the people who are running things tend to have more dings, scars, black marks on the record," says Petersen. "You failed on this, you're way off on that, and you did this wrong and that wrong. And look at this unblemished somebody over here, the staff-type person. Well, there's nothing to blemish him, no way to measure."

It's very different in Japan, where more companies are still in the hands of the people who founded them. "Typically, somebody who founded an auto company knew something about an automobile. He didn't do a financial ledger and then decide that was a key business to go into. Even if it's not the founder, there's a greater emphasis in the Japanese system on the technical input."

Petersen, who rose through the product side of the business, staunchly rejects the notion of a managerial

Grant Leslie Georgson Contact

The late Henry Ford II
His personality cult is gone.

class that can manage anything. "I came away from my career strongly disagreeing with those who say that if you are a highly skilled chief-executive-type person, you can go almost anywhere and run almost anything. I don't think that I could go into a lot of other settings, other than automotive, and have 35 years' worth of background and experiences that give me the tune, the sense of how things play and the rightness or the wrongness of what I see or what I'm being told. You have to know the business."

Why did the U.S. downgrade manufacturing talents in favor of financial? Petersen believes this isn't a flaw of society but a function of the world since World War II. The American technical lead was so great that the belief was—perhaps correctly at the time—"the real differentiating factor will be how clever we can be either in the financial end or the marketing end of the business. Contrast that with a country trying to get its system running. You have one hell of a problem just getting the factories going. Now, who can do that? Only the technical people."

Can Petersen's kinder, gentler Ford survive? Is teamwork what we need—or strong direction from the top?

"Maybe this will help you with my answer. I asked Peter Drucker, 'Am I naive in what I am trying to do, with the dialog, teamwork and trust and cooperation and one-on-one involvement and all the rest?'

"He said, 'Don't worry about the fact that you can't hope to get everybody to go your way. If you can get a third of your people going along with what you are trying to do, you have won absolutely.' "

Says Petersen: "Those who come along with the team concept tend to be the more energetic, more creative, more positive thinkers, so it is a self-selecting third, the leadership cadre."

Why did Petersen quit a year and a half before his retirement date? He says simply that ten years at the top—five as president, five as chairman and chief executive—were enough. By leaving early he gave his longtime associate Harold (Red) Poling, 64, a chance to run the company.

Petersen enjoys retirement. "The most noticeable change after 40 years of a scheduled life is that I have a lot of flexibility. I'm not driven by as many calendars and recurring events as I had been." He is holding down board memberships at Hewlett-Packard and Dow Jones, and beginning to travel for pleasure for a change.

"Now I'm traveling almost as much, but at least half the time I'm taking a trip because Jody and I decided we wanted a quick trip to spend time with friends." Travel to see things hasn't started yet, "but we talk about it.

"I sleep on average an hour later, so we get up, mentally a little more casually, and we have breakfast together, then we typically exercise together, and some days we've almost used up the morning, and it's time for lunch.

"We've actually taken the time just to go over to Chicago to go to an art exhibit with [son] Don, spent a weekend there. We just came back from the West Coast, went all the way to the West Coast for a long weekend."

He's also learning to use a computer and, in a sentence that only those with young children—or grandchildren—will understand, he says proudly, "I've learned how to use that computer enough so that I can finally get Reader Rabbit and Math Rabbit to come up on the screen." ■

The Up & Comers

Entrepreneurs

How a rock tour manager broke into broadcasting with a good idea, the right timing and a $15,000 auto loan.

Controlling the pipe

By Rita Koselka

HAVE YOU EVER wondered how broadcasts of major league sporting events get from where they're being played, across the airwaves and into your local radio or television station? Meet Jeffrey Sudikoff, 35, former rock tour business manager and now chairman of Culver City, Calif.-based IDB Communications, the nation's largest independent transmitter of sports events.

Sudikoff's seven-year-old company is one of those enterprises that touch millions of lives but whose name few would recognize. Acting on behalf of (and paid by) professional sports teams and broadcasters, IDB transmits television and radio signals from one point to another through its satellite facilities or an array of other carriers' phone lines, fiber optics and satellites. In broadcast lingo, this is called "controlling the pipe."

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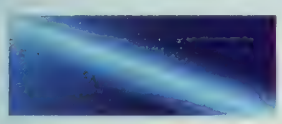

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Photos by Chad Slattery

IDB's Edward Cheramy and Jeffrey Sudikoff
Profiting from the confusion following AT&T's breakup.

National Hockey League franchises. Sudikoff also does some television transmission work for all the broadcast networks, and does the feed for cable networks like Financial News Network and the J.C. Penney Shopping Channel.

The business of merely sending signals is proving very lucrative. Last year IDB had operating earnings of $11.9 million on sales of almost $60 million, up from $1.9 million and $20 million a year before. Sudikoff isn't letting the profits burn a hole in his pocket. Last year IDB bought the Hughes Television Network—mostly basketball and horse racing coverage—for $36 million in cash. It also paid $22 million for a Contel division that sells data transmission services. Beams Sudikoff: "This is the most fun I've ever had."

That's saying something. After graduating with a degree in English and math from Dartmouth in 1977, Sudikoff tried his hand as a broadcast journalist, working for the Associated Press Radio Network in Jerusalem. But that wasn't as interesting as he'd hoped, so Sudikoff returned home in 1978 to figure out how to break into the business side of broadcasting. Eating alone one night at a Los Angeles diner, he struck up a conversation with another patron who turned out to be a tour organizer for rock groups. He offered Sudikoff the job of going on the road to handle business and administrative tasks for the touring groups. Sudikoff spent the next three years touring with the likes of Fleetwood Mac and Neil Diamond.

By 1981 the tour business had sagged, and Sudikoff again started poking around for ways to get into broadcasting—this time using his rock tour connections. His big break came in 1983 when the organizers of a three-day rock concert wanted to know if he could arrange to have it broadcast live to radio stations nationwide. He quickly said yes, then scrambled to figure out how to do it. Sudikoff called some friends at ABC radio, who suggested he get a mobile transmitter to beam radio signals up to a satellite. Sudikoff went to Security Pacific Bank, took out a $15,000 "automobile loan" for the mobile transmitter, and drove the satellite trailer to the San Bernardino, Calif. concert himself.

IDB's video control center
Sending sports to your home.

Within about nine months he had signed up a dozen more clients for all sorts of events, particularly baseball games for radio. He and his trailer were on the road seven days a week. By the end of the first year he'd bought two more mobile transmitters and hired 15 staffers. His revenues went from $85,000 in 1983 to over $1.5 million by the end of 1984. Getting tired of driving all over the country, he came up with a plan to install fixed radio transmitters in all the major league baseball cities to broadcast the visiting teams' games home. By 1985 he'd signed 19 cities.

Just as important as entrepreneurial hustle in fueling IDB's growth has been the deregulation of the telecommunications industry. Prior to the 1984 AT&T divestiture, radio broadcasts were done over the phone lines—with one call to AT&T. After deregulation, options and confusion multiplied, and customers increasingly turned to IDB to figure out how best to transmit their signals from one point to another.

To finance IDB's expansion in a capital-intensive business, Sudikoff enlisted the aid of Edward Cheramy, now IDB's president, who was the Price Waterhouse partner running its entrepeneurial consulting business. They took the company public in 1986 and raised $4 million (with the common stock at around $10, Sudikoff's 22% stake is currently worth around $14 million). A secondary offering raised $12 million for the company in 1987.

IDB has also borrowed heavily. With long-term debt of $93 million, its debt-to-capital ratio is high at 74%. But its cash flow covers interest costs more than twice over.

To raise more cash and form some long-term strategic partnerships, IDB recently sold stock to two large foreign concerns. Teleglobe of Canada bought 20% of the company last year for $13 million and entered into a joint venture with IDB to develop a new type of mobile telephone to allow high-quality transoceanic phone calls from planes or ships via satellite. IDB's other partner is Swissair, whose purchase of a 5% stake is still awaiting Federal Communications Commission approval. If, as expected, the deal goes through, the Swissair link will increase the potential of the telephone venture.

All of which is a long way from telling tour-dazed rockers they were spending too much money and/or trashing too many hotel rooms. But it was a fun way to start. ■

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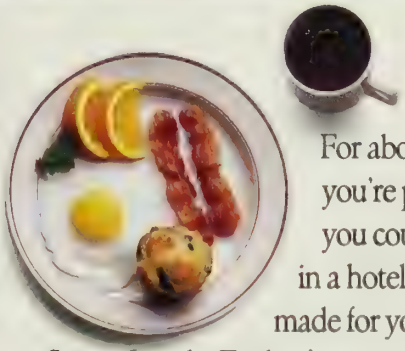

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The government will pay $500 million this year to outside lawyers to clean up the S&Ls. Some of the firms that represented the culprits now represent the government.

Big fees, big conflicts

By James Lyons

QUICK, NAME the nation's largest purchaser of legal services. General Motors? IBM? Aetna? Wrong. It is the Federal Deposit Insurance Corp. (FDIC), which this year plans to pay private lawyers $500 million to help resolve the savings and loan mess.

That staggering sum is on top of the salaries of the FDIC's own in-house staff of 807 lawyers—which the agency expects to total 1,100 by year's end.

All this largesse couldn't have come at a better time for the private bar. Faced with a downturn in business, firms are rushing to add the agency to their client lists. Former FDIC general counsel John Douglas recalls that after legislation passed last summer broadening the FDIC's powers, "We were contacted by more than 500 firms in the first 60 days."

And those are just the new players. Firms with long-standing ties to regulators are now reaping some of the largest windfalls. Chicago's Hopkins & Sutter, which has worked for bank agencies for more than a decade, received $4.7 million from the FDIC in the first six months of this year.

Other big first-half winners were Cleveland's Arter & Hadden, $4.1 million; Cleveland's Squire, Sanders & Dempsey, $3.1 million; and New York's Milberg Weiss Bershad Specthrie & Lerach, $2.8 million.

This isn't to say the taxpayer gets no return on all this spending. Last year the FDIC recovered $2.7 billion in assets, a figure that doesn't include the $285 million recovered by the Federal Savings & Loan Insurance Corp. (FSLIC), which is now operated by the FDIC. In the first half of this year alone, the FDIC has scooped up $2.8 billion in assets, and the agency projects it will have collected about $6 billion by New Year's Day.

But while the FDIC may be providing a nice return on its investment, the selection process isn't without flaws. The agency says it carefully scrutinizes its outside contractors for any conflicts of interest, but clearly, the sieve needs to be finer.

Jean François Allaux

New York's Kaye, Scholer, Fierman, Hays & Handler, which battled the Federal Home Loan Bank Board and the FSLIC at every turn on behalf of Charles Keating Jr.'s American Continental Corp. and its subsidiary, Lincoln Savings & Loan, was paid $118,000 by the FDIC in the first half of this year.

Peter Fishbein, chairman of Kaye, Scholer's executive committee, says the FDIC became involved with Lincoln only when its parent filed for bankruptcy. Because Kaye, Scholer was then representing the FDIC in different matters, the firm decided it would stop working for Keating, Fishbein adds.

Fair enough. But the same partnership that collectively benefited from working for Keating—and against thrift regulators—was simultaneously benefiting from its work for the FDIC. Seeing as how the taxpayers will foot the estimated $2 billion tab for Lincoln Savings, the FDIC should have cut off Kaye, Scholer long ago.

After an inquiry by FORBES, FDIC General Counsel Alfred Byrne says simply, "We have determined that a conflict does exist for us with that firm. No further referrals of any legal work by the FDIC or Resolution Trust Corp. will be made to that firm."

In similar circumstances is Dallas' Jenkens & Gilchrist. Their insurer has paid $18 million to settle two liability claims, brought by the FDIC and FSLIC in connection with its work for two Texas S&Ls. Meanwhile, the firm was paid $566,000 by the FDIC in the first half of this year.

Jenkens partner T. Ray Guy points out that those lawyers primarily involved with the clients that gave rise to the government's claims are no longer at the firm. He adds that Jenkens has collected about $55 million for the FDIC—a large multiple of the fees the firm has received from the agency.

FDIC Assistant General Counsel James Lantelme says that after firms such as Jenkens & Gilchrist resolve their liability disputes with the FDIC, the agency decides on a case-by-case basis whether to renew the ties.

Even General Counsel Byrne has had to grapple with the conflicts issue. Byrne, who was a partner at the Washington, D.C. office of Philadelphia's Dechert Price & Rhoads before joining the FDIC in June, has recused himself from the agency's highest-profile matter: the investigation of Colorado's Silverado Savings & Loan. One of Byrne's former colleagues is representing former Silverado Chief Executive Michael Wise, who recruited Neil Bush to the thrift's board.

Considering that the FDIC's docket consists of 100,000 cases, conflicts such as these are inevitable. But should firms that represented the scoundrels be paid handsomely for recovering the money that was lost or stolen? ■

Our athletic heroes were once expected to be clean-living, reasonably modest chaps. Today it often pays them to be obnoxious.

Throw a tantrum, sign a contract

By Peter Newcomb and Christopher Palmeri

TIMES HAVE SURE CHANGED—and nothing reflects shifting popular tastes better than the movies. Maybe you've seen on TV the 1940 movie *Knute Rockne: All-American.* Pat O'Brien plays the legendary Notre Dame football player and coach. He plays him as a wholesome, I'm-not-in-it-for-the-money personality. A businessman offers the coach $10,000 a year—very big money in those days—to endorse a new liniment to be called Rockne Rub. O'Brien/Rockne tosses the offer into a wastebasket. Trivialize the sport? Cash in on it? Never.

There aren't many Rocknes anymore, and if there were most people would think they were kind of dumb. Nowadays, sports figures chase the bucks, no apologies. The 30 highest-paid athletes in the world will make a total of about $230 million this year. Over one-third the income will come from pitching products, not from hitting balls.

If that's the way the game is played, let's see what the score is. FORBES has compiled yet another list, this one of the top-earning athletes. Who are the biggest winners? Most play individual sports, not team sports. One race car driver, Ayrton Senna, will make more money this year than the starting lineup of the Boston Celtics.

Performing solo, individual athletes have become instantly recognizable all around the globe—and instant recognition is what marketing people want when they get sports stars to endorse their products. Thanks in good part to television and satellite transmission, the sports star who is recognizable in Oklahoma City is equally so in Osaka or Oslo. Las Vegas-born tennis player Andre Agassi pushes Ebel wristwatches in Europe, Mike Tyson peddles Toyota trucks in Japan and Australian golfer Greg Norman pitches McDonald's hamburgers in the U.S. "Tennis players and golfers are especially marketable internationally because they play around the world," says Philip de Picciotto, managing director of Advantage International, a Washington, D.C.-based sports agent.

Culver

Notre Dame star Knute Rockne
Cash in on the sport? Never.

Perhaps the biggest surprise on this year's list is the dramatic earning power of Formula One race car drivers. When it comes to Formula One, which is like the Indianapolis 500 on a more twisty track, companies such as Honda and Ferrari each spend upwards of $50 million a year on teams. That has made Formula One stars among the richest young men in Europe. For instance, Nigel Mansell, who races for Ferrari, makes $6 million a year and has his own Ferrari dealership in England. Alain Prost and another driver bought a golf course in France. Of course, there are occupational hazards. Ayrton Senna might not be able to spend much of his $9 million salary this year if his next spin through Monte Carlo ends in a 200mph ball of fire.

Besides being more readily recognizable, individual athletes enjoy other business advantages over team players. For one thing, golfers, tennis players and race car drivers are allowed to wear company logos when

Bob Martin/Allsport

Racket-snapper Andre Agassi at the French Open in May
He misses a shot, breaks two rackets, then returns to the game. The crowd jeers.

Lucy Ito/Duomo

Boxers Mike Tyson and Buster Douglas
Tyson's troubles scared Pepsi away.

The money stats

On FORBES' list of the world's 30 highest-paid athletes, the first money column indicates a player's 1990 salary, including signing bonuses paid this year or his anticipated annual winnings for the year. Estimates of endorsement income, along with fees paid for exhibition games and other appearances, are shown in the "other income" column. Excluded, however, is any money that stars make from businesses they own. Arnold Palmer and Jack Nicklaus, for example, run golf-course-design businesses, licensing companies—and, in Palmer's case, car dealerships—that easily push their yearly earnings to more than $20 million each.

Rank	Athlete	Sport	Salary or winnings ($million)	Other income ($million)
1	Tyson, Mike	*boxing*	$27.0	$1.6
2	Douglas, Buster	*boxing*	25.0	1.0
3	Leonard, Sugar Ray	*boxing*	12.0	1.0
4	Senna, Ayrton	*auto racing*	9.0	1.0
5	Prost, Alain	*auto racing*	8.0	1.0
6	Nicklaus, Jack	*golf*	0.6	8.0
7	Norman, Greg	*golf*	1.5	7.0
8	Jordan, Michael	*basketball*	2.1	6.0
9	Palmer, Arnold	*golf*	0.1	8.0
10	Holyfield, Evander	*boxing*	8.0	0.1
11	Becker, Boris	*tennis*	1.2	6.0
12	Mansell, Nigel	*auto racing*	6.0	1.0
13	Graf, Steffi	*tennis*	1.1	5.0
14	Canseco, Jose	*baseball*	5.5	0.5
15	Gretsky, Wayne	*hockey*	3.0	3.0

they compete; athletes in team uniforms cannot. Athletes playing team sports are often forbidden to ply their trade in the off-season. "We've been trying for a while to get Magic Johnson and Michael Jordan to play one-on-one, but the National Basketball Association won't allow it," complains Lon Rosen, Johnson's agent. Too bad. Such a matchup might bring Johnson and Jordan $1 million apiece.

But, yes, team players can make a buck. Take basketball's all-star guard Michael Jordan. On top of his $2.5 million salary, Jordan will make more than $6 million this year in endorsements. Jordan's acrobatic slam dunks and off-the-court social grace have made him one of the most bankable faces in sports. He's seen on the Wheaties cereal box, in TV commercials for Coca-Cola and McDonald's and in a multitude of public service spots.

Jordan's deal with Nike is the single most lucrative endorsement contract in sports. Nike named a sneaker after him, the Air Jordan, and it has become one of America's bestselling basketball shoes—at around $125 a pair.

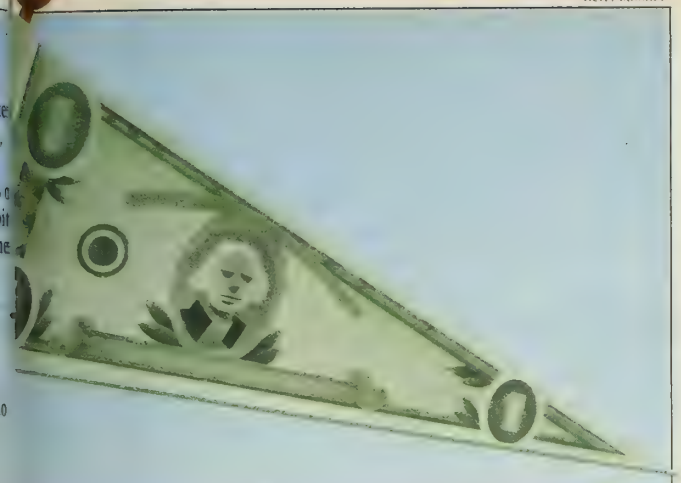
Why are some sports figures more endorsement-worthy than others? Why Jordan, for instance? It helps a lot if the athlete has readily distinguishable personality traits; Jordan certainly does. But he also distinguished himself in the mid-1980s in the NBA's annual slam dunk contest. Other athletes set themselves apart from the pack in ways that can be considered obnoxious.

Take 20-year-old Andre Agassi, one of the most talked-about young players in tennis today. Here's the scene in this year's French Open, just after Agassi has missed a shot. In anger, he stomps on his racket, breaking it to pieces. Then, his blond mane flowing, he coolly walks off the court, reaches into his tennis bag, pulls out another racket, and breaks that, too. Grasping a third racket, he

Stephen Munday/Allsport

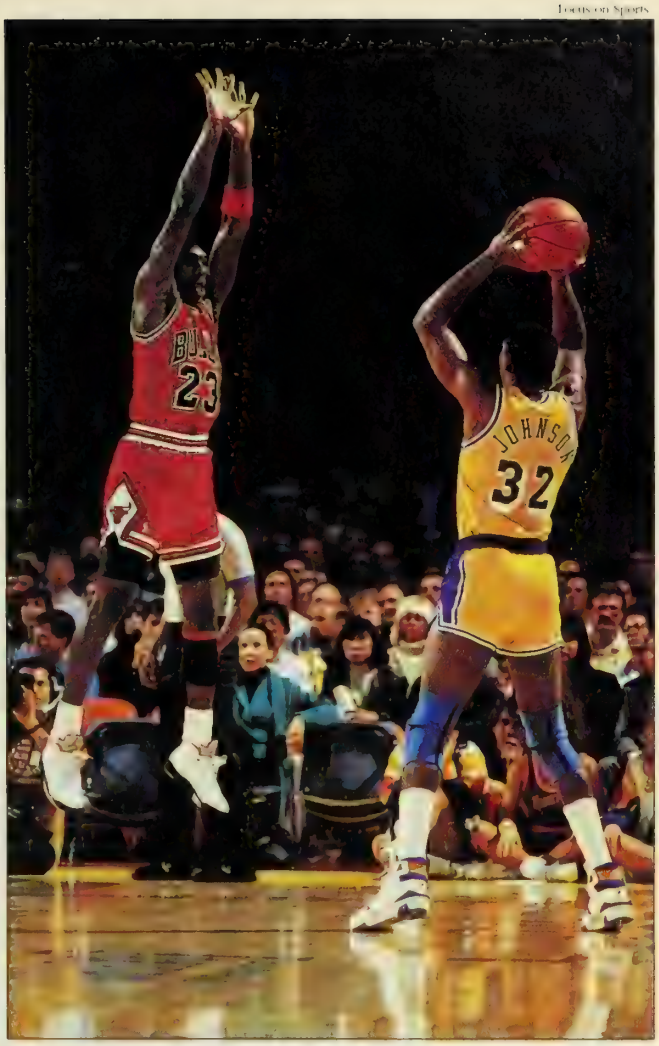
Golfer Hale Irwin at the 1990 U.S. Open
Too animated for the stately game?

Gerry Mooney



nk	Athlete	Sport	Salary or winnings	Other income ($million)	Total
	Agassi, Andre	*tennis*	$1.0	$4.5	$5.5
	Egberg, Stefan	*tennis*	1.5	4.0	5.5
	Lendl, Ivan	*tennis*	1.3	4.0	5.3
	Maradona, Diego	*soccer*	2.0	3.0	5.0
	Mattingly, Don	*baseball*	4.5	0.3	4.8
	Jackson, Bo	*baseball/football*	2.0	2.5	4.5
	Sabatini, Gabriela	*tennis*	0.5	4.0	4.5
	Johnson, Magic	*basketball*	2.5	2.0	4.5
	Yount, Robin	*baseball*	4.2	0.3	4.5
	Montana, Joe	*football*	1.4	3.0	4.4
	Ewing, Patrick	*basketball*	3.6	0.6	4.2
	LeMond, Greg	*cycling*	1.7	2.5	4.2
	Berger, Gerhard	*auto racing*	3.0	1.0	4.0
	Strange, Curtis	*golf*	0.8	3.0	3.8
	Clark, Will	*baseball*	3.7	0.1	3.8

Focus on Sports



Hoopsters Michael Jordan and Magic Johnson
Why not let them play one-on-one for $2 million?

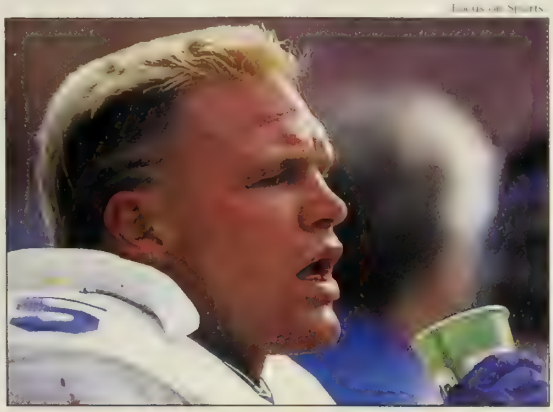
heads back to face his bewildered opponent.

How did the fans take this tantrum and display of poor sportsmanship? They jeered. But they keep coming back to watch him. In an age of unabashed individualism, here is a guy who knows how to assert himself. Agassi has skipped Wimbledon, the world's most prestigious tournament, for the past four years. Perhaps Wimbledon—where players are required to wear tennis whites, rather than the flashy neon garb that Agassi endorses—doesn't fit into the young star's marketing plan.

"America loves a guy who can make the big bucks and then thumb his nose at the world," says Columbus, Ohio sports psychologist William Beausay. "Society has changed over the last 30 years. We went from a society where people had respect for one another to one where the primary concern is for oneself. The athlete of today reflects that change."

That's a harsh judgment, but there's some truth in it. With his trademark bad manners in an age when bad manners aren't much frowned upon, Agassi has become a celebrity. Celebrity means money. Belgium's Donnay pays Agassi more than $1 million a year for the use of his name and face to draw attention to its tennis rackets. Nike has just re-signed Agassi, tantrums and all, to an estimated $2 million-a-year contract to endorse its sneakers and apparel.

Focus on Sports



Football has been Brian Bosworth
Great haircut, disappointing player.

Modesty is out, arrogance is in. Just watch any sporting event and you'll see the latest in aggressive exuberance: high-fives and low-fives, forearm bashes and finger-pointing. It was once considered rude for football players to prance around the end zone after a touchdown. But these days at NFL games such dances are routinely performed by players, and the displays appear to have been carefully choreographed. Far from being shocked, the sports voyeurs love it.

Golf, perhaps the last bastion

of genteel sportsmanship, got a taste of unrestrained behavior in June. Hale Irwin sank a 45-foot putt on the 18th green at the U.S. Open. As the putt fell, the 45-year-old Irwin took off on a sprint around the green, slapping high-fives with anyone in the audience who dared or cared to join him. Irwin's antics raised his profile considerably, and that should do wonders for his marketability.

Former Seattle Seahawks linebacker Brian Bosworth first made a name for himself at the University of Oklahoma, where he was known as much for his Mohawk haircut and his admitted use of steroids as for his prowess on th field. In the NFL, Bosworth's abbreviated career was a b disappointment, but he was a standout showman, th prototypical angry young man. "Brian's a bad boy, and I d think that sells," says Gary Wichard, Bosworth's agent. seems to. After endorsing Gillette's Right Guard deodo ant in television ads, Bosworth now plans to star in a action film called *The Brotherhood,* due out early next yea

There was always a strain of the showoff in our spor stars. Fifty-eight years ago in the World Series at Chicago

The squeeze on sponsorships

This year alone, companies are expected to spend $1.7 billion backing golf tournaments, tennis matches and the like, up threefold since 1985, according to Chicago-based International Events Group, Inc. But the growth has begun to slow. The cost of sponsoring premier events has risen sharply over the past few years, mainly as a result of competitive bidding among companies for the most desirable tourneys. Meanwhile, various financial constraints are beginning to pinch companies' promotion budgets.

Ashland Oil's Valvoline motor oil division didn't sponsor a Nascar racing team this year, after ten years with the circuit. Manufacturers Hanover, burdened with bad loans, ended a ten-year tradition of sponsoring golf's prestigious Westchester Classic. RJR Nabisco, leveraged to the eyeballs, announced it is all but entirely pulling out of PGA golf sponsorship next year—an event dear to the heart of departed RJR boss Ross Johnson. The move will likely save the company in excess of $10 million a year.

Other companies have responded to the squeeze on costs and on budgets by getting more creative. Volvo U.S.A. bought stakes in three tennis tournaments it sponsors; thus, if the events make money, Volvo's costs are reduced. Pepsi's marketing department has responded to the higher costs with a "big event" strategy. That means sticking with high-profile events like the Super Bowl, the Boston Marathon and this summer's Goodwill Games. It also means some lesser events may go begging for sponsors.—**C.P.**

America's top corporate sports sponsors

Company	Budget ($mil)
Anheuser-Busch	$175
General Motors	150
Philip Morris	128
RJR Nabisco	115
Nike	86
Coca-Cola	71
McDonald's	66
PepsiCo	64
Coors	53
Eastman Kodak	49
IBM	49

Source: The Sports Marketing Letter, *Westport, Conn.*

Robert Brown/Allsport

The Budweiser racing team at the Indy 500
Competitive bidding has boosted the cost of sponsoring premier competitions.

Wrigley Field, as legend has it, Babe Ruth pointed at the centerfield wall and promptly swatted the ball over the fence for a home run. But this was high spirits and cockiness, not arrogance or temper tantrums.

How things have changed. Bo Jackson plays both football and baseball professionally. While he is generally thought of as a nice guy, after striking out (which he does often these days) he has taken to snapping his wooden bat in two across his knee. Unsportsmanlike perhaps, but it's a gimmick that has gone over big with the fans. For Jackson, that means a higher national recognition factor.

John McEnroe brought being obnoxious to a fine art. No question, he was good at tennis. He took Wimbledon three times and the U.S. Open four times. But throughout his career, McEnroe would regularly throw tantrums and scream at line judges. This cost him thousands of dollars in fines and won him thousands of lines of nasty ink in the nation's sports pages. Did it hurt McEnroe's off-court business? Hardly. One marketing poll indicated McEnroe was one of America's least-liked tennis stars, yet the same poll also ranked him as one of the nation's *most* liked players.

McEnroe, now in the autumn of his career, is remembered as much for his nasty manners as for his playing, but he is remembered. He still takes in some $3 million a year in endorsement money, falling just short of making the FORBES list. Without doubt, he served as something of a role model to today's flamboyant stars. Says fellow netsman Agassi, "I think everybody agrees McEnroe could have handled himself better at times. But I always respected his openness to express how he felt."

Advertisers must play the obnoxiousness game with great care. A flamboyant athlete can help draw attention to an advertiser's product. But if the guy is a real flash in the pan, it's important to get the ads on the air fast and not get too attached. Finding a long-term company spokesman is a different matter. Gimmicks are okay, serious controversy is not.

One athlete who stepped over the line is boxer Mike Tyson, this year's number one money earner on the FORBES list. Tyson will make almost all his $28.6 million fighting fights; only $1.6 million or so will come from endorsements. Why? In large part it's his messy personal life. Two years ago Pepsi agreed to pay Tyson about $1 million to push its products. But the cola company refused to renew the contract when it came out in the media that Tyson had allegedly been beating his actress wife, Robin Givens. A messy divorce followed. Then there was Tyson's silly street fight in Harlem and the *coup de grace:* He wrapped his Mercedes around a tree in the driveway of his trainer's house.

Jose Canseco, an outfielder for the Oakland Athletics, is another case of a sports figure crossing the tricky line that divides merely flamboyant behavior from the sort that offends large numbers of people. As a celebrity, Canseco has lots going for him. He is the first major league player ever to hit 40 home runs and steal 40 bases in the same season. The Oakland front office recently granted him a five-year, $23.5 million contract, the richest in baseball history. A $3.5 million signing bonus will help give Canseco nearly $6 million in income this year, making him number 14 on our list.

But endorsements? That's a different story. Canseco claims that he doesn't get any national endorsements because of unfair portrayals in the media. A more likely explanation: Canseco's bad manners and arrogance give potential corporate sponsors the heebie-jeebies. He has a history of failing to show up for scheduled photo shoots and once even missed a banquet in his honor. On top of that, Canseco was nailed several times last year for speeding and other vehicular violations. But what really scared sponsors was Canseco's arrest in April 1989 for carrying an unregistered handgun.

But Canseco isn't starving. In addition to his rich baseball contract, he will do about $500,000 in local endorsements this year. Still, he's not yet in the endorsement big time. Advertisers want talented players with recognizable public images. Outlandish behavior helps establish image, but it shouldn't be too outlandish. Once the image is right and strong enough, the earning power often persists long after the athletic career has peaked, becoming a kind of annuity. As our list shows, old-time golfers Arnold Palmer and Jack Nicklaus are near the top. What will become of you, Andre Agassi? ■

Lonnie Major/Allsport

Football/baseball player Bo Jackson
How to make striking out exciting.

NEVER

UNDERESTIMATE

THE POWER

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Wall Street noticed.

But it's also no secret that we acquired a world-class paper company with a very large cash flow.

Wall Street noticed.

Add to that our own substantial cash flow, and the picture gets clearer. Because the simple fact is, the new Georgia-Pacific will be capable of generating 1.5 billion dollars in annual cash flow from operations. And when combined with the possible sale of non-strategic assets, we should retire our debt far quicker than many expected.

And that's the sort of news all kinds of people notice.
Especially our shareholders.

Georgia-Pacific

Marketing

Edited by Joshua Levine

Here's how K-Swiss gained a foothold in the fashion-crazed athletic shoe market by avoiding gimmicky trends and marketing old-fashioned quality.

The shoe as hero

By Julie Schlax

WHEN IT COMES to staking a claim in the volatile $4.8 billion athletic footwear market, K-Swiss Inc. is doing a little counterprogramming: no glitz, no glamour. No big-time basketball star endorsements. No razzle-dazzle psychedelic designs.

Instead, Pacoima, Calif.-based K-Swiss' basic product line is a plain, white leather athletic shoe. K-Swiss' target buyers are boys and men who wear button-down shirts and girls and women who wear classic-looking Ralph Lauren-style sportswear. One typical target customer is Lauren Bretzfield, 13, who attends a private co-ed school in Los Angeles' trendy west side and shops at the chic Century City Shopping Center. These days, she says, the in-crowd is no longer into flashy designer apparel. "My friends and I wear plain clothes," explains Bretzfield, "jeans and T shirts and basic shoes."

The K-Swiss target customer spends less time with the tube than does the typical American, so instead of television, K-Swiss' low-key advertising, for now, is aimed at radio, magazines and billboards. Its retailing outlets tend to be selective and upmarket. "The basis of our company," says Chairman Steven Nichols, "is long-term performance, not fashion."

In a fad-driven market where K-Swiss' far bigger competitors—Nike, Reebok and L.A. Gear—are trying to outdo each other in creating trendy envy, the no-frills approach seems to be working. Between 1988 and 1989 revenues increased 72%, from $40 million to $69 million. Meanwhile profits rose from $2.7 million to $4.7 million. K-Swiss stock, recently $26 a

Rob Lewine

K-Swiss Inc. Chairman Steven Nichols
"The basis of our company is long-term performance, not fashion."

share, or 28 times 1989 earnings, has gained 48% since it went public in June at $17.50.

Compared with its big three rivals—which together account for 59% of the athletic footwear market—K-Swiss' share is a tiny 1.6%. But that's up a very respectable 60% in the last year, while Nike, Reebok and L.A. Gear together gained 5%.

It hasn't been easy. In 1988 retailers snickered at K-Swiss' claim that its new Gstaad court shoe would have a product life-cycle of about five years, compared with the industry average of six months to a year. But many skeptics have been won over by results at the cash register and the fact that K-Swiss is fanatical about quality control: Its 1% return rate is among the lowest in the industry. The design of its Classic, a white leather tennis shoe with five subtle stripes, pretty much hasn't changed in 24 years and is the basis for the entire product line, over 20 items. James Hines, who heads the footwear division of the Houston, Tex.-based Oshman's Sporting Goods chain, is happy with the product. Says he: "People keep rebuying. We've had the account since 1966."

K-Swiss was founded that year by Art and Earnest Brunner, former Swiss skiers and athletic equipment importers. For 20 years their primary product was the Classic, a design they discovered in Switzerland and perfected, using high-quality rubber and leather. They set up shop in low-rent Pacoima, about 25 miles north of Los Angeles. Sales grew steadily, to about $21 million by 1986. All this without marketing or advertising. The shoe basically sold itself.

This didn't go unnoticed by Steven Nichols, at the time president of a division of Stride Rite Corp., maker of such timeless classics as the Sperry Top-Sider, which has been around for 55 years. The soft-spoken Nichols, now 48, knew his shoes. As a teenager he worked in his grandfather's shoe store in New York City.

In 1985 Stride Rite briefly considered buying K-Swiss. When Nichols couldn't persuade his superiors to take the plunge, he decided to jump in on his own. In 1986 he resigned from Stride Rite and spent the next seven months putting together $16 million of venture capital to buy K-Swiss himself—a deal he completed in January 1987. Almost immediately, he pushed the one-product company into new areas such as basketball, court, boating and alpine hiking shoes. Most styles are available in men's, women's, children's and infant lines. In a bit of a departure, Nichols has introduced shoes in basic primary colors. K-Swiss shoes retail from $25 to $85. The kids' market accounts for about 10% of total sales, but Nichols hopes to increase that to about 15%.

Last year K-Swiss spent a modest $3.2 million on advertising, against an estimated $70 million for L.A. Gear. "Our campaigns focus on what we call the shoe as hero," says Preston Davis, K-Swiss vice president for marketing. Advertisements typically consist of extreme closeups of the shoes that show off the quality of the leather and stitching. To target the college market, the firm advertises in magazines such as *Elle, Rolling Stone, Spin* and *Seventeen.*

To the extent the company seeks celebrity endorsements, it does so in an offbeat way. One example: Bud Collins, the balding, colorful tennis commentator best known for his coverage of Wimbledon and the U.S. Open. Says Davis: "We were drawn to him because he's not vanilla. He's a personality that draws attention. But he's also one of the smartest men on the game of tennis."

Nichols sees great growth potential overseas; a joint venture in Japan already accounts for 16% of K-Swiss' sales. K-Swiss also markets its shoes in Taiwan, Hong Kong, Singapore, New Zealand, and Central and South America. "There are few universally accepted things," says Nichols. "One of those is Swiss quality."

Maybe, just maybe, your L.A. Gears and British Knights can keep riding the roller coasters of fashion. For sheer staying power, however, we'd be inclined to bet on K-Swiss. ■

Three examples of K-Swiss' no-frills ads
The shoe, and not a celebrity, is the star.

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Some investors seem to think that Texas Pacific Land Trust's desolate pasture and semidesert are golden assets. Call it the romance of the West.

Sagebrush saga

By William P. Barrett

When it comes to strange beasts on the New York Stock Exchange, it's tough to beat the 102-year-old Texas Pacific Land Trust. With offices in New York and Dallas, the trust has just nine employees and holds a shareholders' meeting only about every six years. Its three trustees are elected for life and haven't had a raise this century. The top full-time officer, Maurice Walls, whose title is general agent and secretary, earns less than $100,000 a year and works from an office the walls of which are flecked with peeling paint. Yet at a recent 28½, the company's 3.63 million shares have a market capitalization of about $103 million.

The basic line of business: going out of business. The trust was formed in 1888 to take over many of the assets of Jay Gould's overextended Texas & Pacific Railway Co., the state's first major east-west line. These assets consisted of 3.5 million West Texas acres of semiarid land that the state government had given Gould to help finance the line. Railroad bondholders swapped their debt for shares in what amounts to a liquidating trust.

A century later, Texas Pacific is still liquidating. Despite selling more than 2 million acres over the past 102 years, the trust still owns nearly 1.2 million acres in the desolate, 400-mile stretch between Abilene and El Paso, almost all of it leased out for cattle and sheep grazing. Only the state government is said to own more of the Lone Star State.

"We're pretty passive about selling the land," says General Agent Walls, a 22-year veteran of the company. "We wait for people to approach us. It'll probably take us at least another 100 years to sell the rest."

And what's the hurry, anyway? For 1989, Texas Pacific earned $2.8 million, or 77 cents per share, on revenues of $5.4 million. About 20% of the income came from infrequent land sales, 40% from tiny royalty interests in 2,600 oil and gas wells, and the rest from grazing rentals and interest on previous owner-financed land sales.

Texas Pacific trades for 37 times earnings, while yielding a puny 1.4%. Since 1980—a period of Texas boom and bust—Texas Pacific's total annual return, assuming reinvestment of dividends, has been only 0.7%, even after the repurchase of around 1% of its outstanding stock annually. Investors would have done better just about anywhere else.

So what supports the stock price? Call it mystique. A mystique rooted in an overblown faith in the appreciation of real estate and the resulting notion that this relic of Texas history must contain assets far in excess of the current market capitalization. Periodically, the market catches a bad case of Texas real estate fever. Last fall, for example, the stock briefly shot up to 54 after *Business Week* suggested the actual asset value was $92 a share. The price quickly settled back to around 30, where it has hovered for nearly a decade.

Texas Pacific officials do little to discourage this riches-too-vast-to-count thinking. But the stock is nothing more than a play on the potential

Texas Pacific Landtrust

An original certificate, issued 1888, of the Texas Pacific Land Trust
Going out of business for 102 years.

value of parched and dusty stretches that only an armadillo could love. Even as a hedge against inflation, the stock looks richly priced.

Some 98% of it is ranchland—much of it semidesert—with no developmental potential. Thanks to the checkerboard pattern of the original land grant, Texas Pacific has virtually no contiguous parcels larger than a square mile. That restricts potential buyers to adjoining landowners, severely driving down prices. Experts figure the average value at $62 an acre, for a total of $70 million.

The biggest growth potential lies in the other 2%, about 24,000 acres on the far eastern outskirts of the populous El Paso area adjoining Mexico. Reckoning about $830 an acre would make Texas Pacific's best land worth maybe $20 million.

Add in the oil and gas assets at a generous five times the average yearly income of the past decade—net worth about $17 million—plus the rest of the debt-free balance sheet, and you get a liquidating value of about $115 million, or $31.85 a share, a modest 12% premium to the market.

But that ignores taxes, and they are a killer here. Even though it is called a trust, Texas Pacific is taxed as a corporation, and each one of its sales is subject to capital gains on almost the entire purchase price. Taking this into account, the net realizable of Texas Pacific assets works out to about $80 million, $22.14 a share, or 22% *below* the recent market. So much for mystique.

Yes, over time land prices will rise. But for the past 25 years, through several business cycles, studies say West Texas land has appreciated at no more than inflation. Oil prices probably will move up, too, but Texas Pacific long ago sold off its own right to drill new oil and gas wells on its land.

Texas Pacific is almost quaint; some days it doesn't even trade. Chairman Maurice Meyer, a trustee since 1955, argues that the company is doing just fine: "It has worked for 102 years and worked beautifully." But the low annual returns and large premium over liquidating value suggest that the current market price is based more on fantasy than on fact. ■

General Agent Maurice Walls in the Dallas office
Walls flecked with peeling paint.

Steven Pumphrey

A Texas & Pacific locomotive
Once part of Jay Gould's railroad empire.

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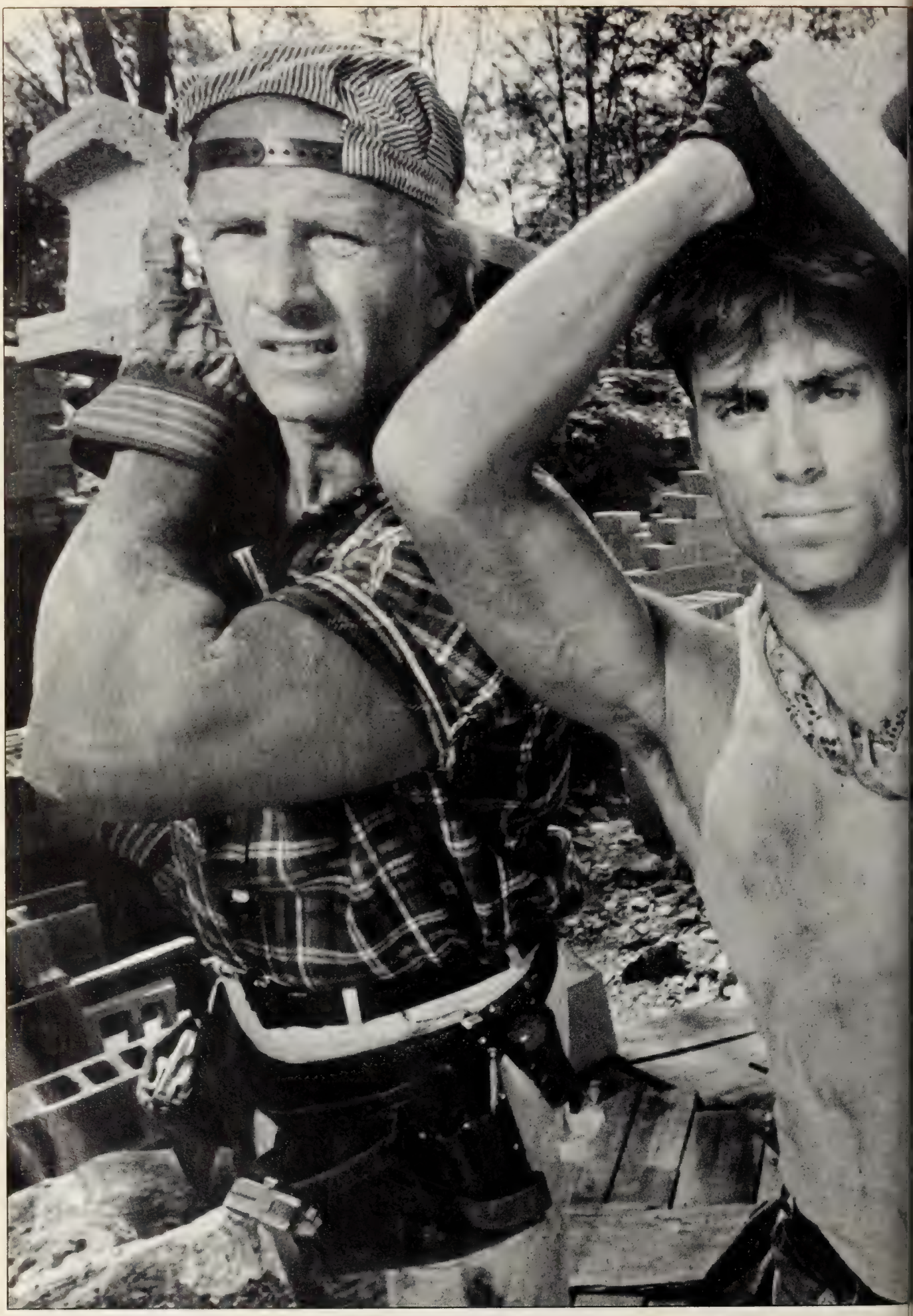

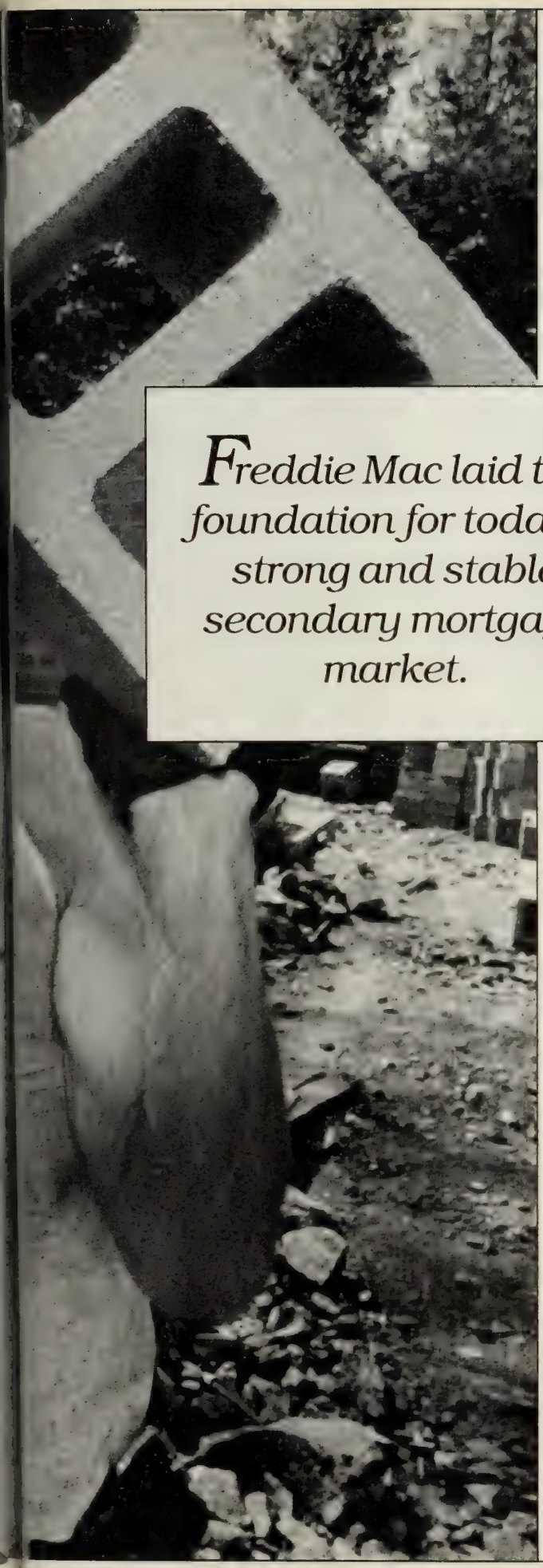

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STEADY FREDDIE

From Wall Street came an inventive new structure that promised to boost acquisitions. The accountants nixed it.

The accountants versus the dealmakers

Chas. B. Slackman

By Dana Wechsler Linden

With a lot of Wall Street's mergers and acquisitions folks twiddling their thumbs these days, the last thing they needed was someone putting a crimp in a promising new kind of acquisition.

But that's just what happened when the accounting industry's Emerging Issues Task Force met July 12 to rule on how companies should do the accounting for a clever merger ploy conceived by Dow Chemical Co. and investment bankers Morgan Stanley and Shearson Lehman Hutton. The ploy was intended to ease the way for Dow's purchase of Marion Laboratories last fall. It enabled Dow's pharmaceuticals subsidiary, Marion Merrell Dow, to avoid perhaps $90 million per year in goodwill charges over the next 40 years. Other companies were soon proposing the same kind of transaction.

The task force is empowered by the Financial Accounting Standards Board—the accounting rulemaker—to deal with narrow technical issues that need quick resolution. The task force effectively turned thumbs down on future use of the technique. Designed to boost per-share multiples and help U.S. firms be more competitive when bidding against foreign buyers, the technique bypassed that dreaded accounting entry, goodwill.

Goodwill represents the difference between the price you pay for the company and the tangible assets you receive. Accounting rules say goodwill must be amortized over a period of up to 40 years, coming directly out of aftertax earnings. That annual hit to earnings then affects the stock market's valuation of the company.

How did the Dow deal work, and how did it get around the goodwill problem? Dow's stock was trading at a dull seven times earnings—a chemical company, after all. Yet tucked inside its $17 billion in revenues was a $1.2 billion pharmaceuticals subsidiary, Merrell Dow, which could have commanded a far higher multiple from the market on its own. That would make the stock more valuable currency for use in acquiring other companies and help strengthen it against formidable competitors in global pharmaceuticals.

The straightforward solution would have been for Dow to sell the public shares in Merrell while still retaining control. Merrell would then start buying other medium-size drug companies, such as Marion Laboratories.

But since Marion would undoubtedly have sold for a higher price than the value of its tangible assets, Merrell would have been hammered by goodwill charges. Instead the Dow people employed a three-step process. Dow first bought 39% of Marion's shares and a voting proxy for another 13%, giving it 52% control.

Second step: Dow transferred Merrell Dow to Marion, in exchange receiving more Marion stock. Dow ended up owning 67% of the new company, called Marion Merrell Dow.

Third: Dow gave the public shareholders of Marion Merrell Dow a new kind of security, called a "contingent value right." This essentially guaranteed the price of Marion Merrell Dow's shares on Sept. 30, 1991.

Now, remember the objective: No goodwill on Marion Merrell Dow's books. Dow achieved this by taking advantage of an accounting rule that says when companies under "common control" merge, they simply add their assets and liabilities together at historic cost—goodwill need not be booked. Since Dow controlled both Marion and Merrell Dow before they merged, the rule applied.

The SEC accepted this accounting, but when other inquiries started pouring in, SEC Chief Accountant Edmund Coulson began to get concerned. "Where was this thing going to go?" asks Coulson.

At Coulson's request, the Emerging Issues Task Force put the issue on its July 12 agenda. The 13 accountants met at New York's Parker Meridien hotel, discussed it briefly, and concluded that since the whole deal was linked at inception, it wasn't right to treat Marion's combination with Merrell Dow as a separate transaction. Thus, no merger of companies under "common control" took place.

With this ruling, if Dow were to do the deal again, it would have to book far more goodwill on its own books than the $3 billion it did. And even more important, it might have to show billions of dollars of goodwill on Marion Merrell Dow's books as well. That might be more than Dow would be willing to accept.

"This kind of transaction is now killed," laments Robert Willens, a partner at KPMG Peat Marwick. Which leaves U.S. companies at a continued disadvantage in making major acquisitions, since some foreign companies do not have to amortize the goodwill—which often accounts for as much as 90% of the acquisition price. The SEC's Coulson says that he had no strong view on how the matter should be resolved but simply wanted a ruling. Says he: "I would have thought that there would be more discussion. We didn't think that it was slam dunk." Having decided the case on narrow grounds, the accountants have made it that much more difficult for U.S. business to compete internationally. Is that what they are there for? ■

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Brian McAuley of Fleet Call with dispatch radio and portable phone
"If you own 50 miles of beachfront in Hawaii, you ought to be able to put up some nice hotels."

Steve Winter

Computers/ Communications

Why is cellular centimillionaire Craig McCaw trying to stop Fleet Call from upgrading its two-way radio service? Could McCaw be worried about competition?

Look out for the taxi dispatchers

By Gary Slutsker

THESE ARE tough times for investors in cellular stocks. They took a hit late last year after Prime Minister Margaret Thatcher opened up the British cellular industry to competition from personal communications networks—it hasn't happened here, but it might one day. The highfliers took another hit recently when Motorola announced its stunning plan to run a worldwide cellular system in the sky called Iridium.

Now comes another competitive threat—not from a futuristic technology, but from something as unglamorous as the taxi dispatch business. A clever startup called Fleet Call Inc., in Bloomfield, N.J., is trying to turn its collection of dispatch operations around the country into something that is almost identical to a cellular phone system.

Fleet Call wants permission from the Federal Communications Commission to upgrade its dispatch business. If it gets the permission, Fleet could set a dangerous precedent for the cellular business. Other mobile radio operators, including the likes of Motorola and other creative technologists, could eventually do a lot of damage to the comfortable duopoly of the cellular business. At present only two companies can operate cellular phone service in any given area.

No surprise, then, that several large cellular operators, including Craig McCaw's McCaw Cellular Communications, are quietly lobbying against Fleet's petition. The heavyweight lawyer fighting Fleet for McCaw is former FCC chairman and current FCC powerbroker Richard Wiley.

The brains behind Fleet are Morgan O'Brien, 45, a former FCC staff lawyer, and Brian McAuley, 49, a onetime executive at Millicom Inc., a cellular and paging outfit. The two men formed the company in 1987 and began buying up FCC licenses in the specialized mobile radio band. This mobile band business is worth about $400 million a year in service fees and

equipment sales. It provides wireless dispatch service to taxi fleets, plumbers and other small businesses. Mobile radio operators may also complete phone calls for their mobile customers, at an additional cost, though this is now a small part of their business. O'Brien and McAuley have asked the FCC for permission to use new technology that would dramatically expand the capacity of channels they already control.

Fleet Call had $30 million in revenues last year, small potatoes next to, say, McCaw Communications' $504 million. But it has giant ambitions. Here's how Brian McAuley, Fleet's president, describes his outfit: "If you own 50 miles of beachfront in prime areas of Hawaii and all that's on there now are shacks, you certainly ought to be able to put up some nice hotels."

Right now, Fleet Call is limited to beach shacks by its restrictive FCC license. The FCC merely lets mobile band operators blast signals throughout a metropolitan region from several high-power antennas using exclusive frequencies. In New York, for example, Fleet Call gathers transmissions from around the metropolitan area for retransmission, using over 40 antennas and 200 repeaters placed at several sites, including the Empire State Building.

O'Brien and McAuley want to increase their calling capacity and quality simply by using some of the same tricks the cellular folks have adopted. First, they want to divvy up cities into shifting, amoebalike cells that permit their precious frequencies to be reused every few cells, a process the cellular industry has used to expand capacity. Next, they want to switch to new digital transmission equipment and trade their bulky radio sets in for the same portable phones used by cellular operators.

If the FCC grants its wish, Fleet Call will increase its capacity over fifteenfold, enough to keep its existing dispatch customers and expand by attracting cellular customers.

Fleet Call has a lot of money riding on the FCC application. After talking venture capitalists at First Chicago and Chase Manhattan banks into providing $80 million in equity and access to debt financing, O'Brien and McAuley paid about $250 million to acquire 1,600 or so of these dispatch channels in New York, Los Angeles, Chicago, San Francisco, Dallas and Houston.

In Los Angeles, for example, Fleet Call controls almost 9 megahertz of the electromagnetic spectrum, about 1½ times the space of a single television channel. For that space it paid an average of $5 million per megahertz. This is darned cheap compared to what cellular systems currently fetch. McCaw Communications recently acquired a part interest in a Los Angeles cellular system controlling 25 megahertz. McCaw paid the equivalent of $166 million per megahertz.

If the FCC lets Fleet Call upgrade, the taxi dispatch channels will become vastly more valuable—and McCaw's will be somewhat less valuable. In competing with cellular operations, Fleet will have plenty of pricing flexibility, thanks to intense competition in the fragmented mobile radio business. "Customers were paying $15 for 75 minutes of airtime on a frequency that was functionally equivalent to a cellular one where cellular was getting $100 for the same thing," says McAuley.

There are some hints that the agency will come down on the side of competition. FCC Chairman Alfred Sikes has campaigned for more efficient use of the radio spectrum. For example, the cellular industry has adopted new digital standards without having to get FCC permission.

In some areas, the FCC has dropped the need to allocate frequencies for different kinds of services altogether. For example, holders of satellite transponder licenses may transmit phone calls, data and TV and radio programming—all simultaneously. Yet elsewhere in the spectrum, services are strictly segregated. Fleet's application shows how technology mocks the FCC's rigid, outdated zoning laws. If the FCC relaxed those laws, the free market would quickly decide how best to use the spectrum.

Already the mobile radio band is starting to bristle with new technology. Last year the FCC let New York-based Ram Mobile Data set up a nationwide digital all-data network using mobile radio channels. The big fellows are moving in, too. Motorola, a large holder of mobile radio channels, recently started selling a data messaging service over some of its frequencies to trucking companies. Moving a lot of dispatch traffic to more efficient data services would free up more capacity for phone calls.

Will local regulators object to having a third player in the cellular business? Not likely, if the newcomers start by competing on price. "No public service commission in the country is going to say, 'Don't lower your rates,'" says McAuley. Lower rates could be a serious blow to cellular operators, many of whom have big debt burdens assumed in buying their systems.

News of this and other potential setbacks have already knocked billions of dollars off the market value of cellular stocks and bonds. But have the price declines fully discounted the threats? ■

Making loans to young high-tech companies only sounds risky. That's why Silicon Valley Bancshares is so profitable.

Electronic banking

By Ralph King Jr.

PLEXUS COMPUTERS, one of those rockets that Silicon Valley is noted for, streaked upward and then crashed, filing a bankruptcy petition in March 1989. Venture capitalists and other creditors lost at least $40 million. But Silicon Valley Bancshares, Plexus' primary lender, recouped its $344,000 loan by collecting on the firm's receivables, which it had secured.

As its name suggests, Silicon Valley Bancshares makes a lot of loans to the high-tech industry on the San Francisco peninsula. Customers include mid-size firms like Chips & Technologies and SynOptics Communications, and tiny ones like Trimble Navigation. It also makes general commercial loans and construction loans for expensive

single-family homes. Since opening its first office, in a San Jose industrial park in late 1983, the bank's assets have swelled to $570 million, at a torrid growth rate of 54% compounded annually.

Growth like that is routine in the technology business but usually dangerous in banking. It may mean that underwriting standards are lax and that big losses are sure to follow. Remember the Penn Square Bank?

Silicon Valley Bancshares' chief executive, Roger V. Smith, bridles at the comparison to Penn Square. "This ain't oil and this ain't Oklahoma City," he says. The numbers back him up. If we can trust the auditors this time, Smith's bank is as solid as they come. Total losses at Silicon Valley Bancshares, the holding company of Silicon Valley Bank, are $3.1 million to date, less than $200,000 of that in high technology. The reserve for loan losses, at 1.75% of loans outstanding, is a very comfortable 4½ times nonperforming loans. Return on assets is 2.1%, among the highest in the nation. Return on equity is 29%.

Silicon Valley goes after business other banks are afraid of or don't understand. BankAmerica once dominated the region's emerging high-tech market. Now, after big losses in Third World loans and elsewhere, it timidly limits such lending to firms solidly in the black. East Coast banks active in the area during the high-tech boom of the early 1980s, like Chase Manhattan and Bank of Boston, have all but folded their tents. Silicon stepped into a gaping void.

Silicon doesn't wait for customers to come to it. The bank calls on every high-tech firm it can find in the first year or two of life. The typical customer has strong venture capital backing, thus lots of cash on hand. It may have already begun manufacturing, but its sales are less than $25 million and its income less than zero, which means it is still at least several years away from a public offering.

"We're mainly knocking on doors for deposits, not loans," says Smith, 49, a skilled marketer who gets his best leads from the valley's venture capital community. The bank solicits deposits by dangling a carrot. If the customer meets certain near-term financial targets, it can get a revolving credit line. For example, as soon as receivables hit, say, $5 million, the bank will lend up to 60% of that amount, or $3 million, at an interest rate several points above prime. That's $3 million of interim funding the company would otherwise be forced to raise from venture capitalists, costing company founders another chunk of precious equity.

What's in it for the bank? Loyalty, which will pay off as the company grows up. The bank collects an annual fee, usually 1%, for the credit line. And it gets a blanket lien on all the customer's assets—just as it did with Plexus Computers—and maybe even on the chief executive's house.

Sharon Beals

Roger V. Smith of Silicon Valley Bancshares
"This ain't Oklahoma City."

But the real plum is all that seed capital the company agrees to deposit with Silicon. Because many startups need funds on a moment's notice, one-quarter of the bank's deposits, or $140 million, are non-interest-bearing. Other longer-term deposits pay interest but at rates a point or two below market. The bank has never had to buy brokered deposits. Because of its low cost of funds, a mere 5%, the bank's net interest margin is an outstanding 7.6%.

Low overhead helps, too. The bank has no headquarters, just five cramped offices near the plants of its customers. Since it doesn't serve the retail trade, there are no tellers standing around nor costly ATMs to service. Roger Smith works at a metal desk and serves baloney sandwiches to luncheon guests.

Smith's approach to service has a distinctly entrepreneurial bent. When one client, Radius Inc., an $82 million (1989 sales) maker of high-resolution monitors, decided to hire an out-of-town top executive, the bank gave the executive one-day approval on one bridge loan to exercise stock options at the company he was leaving and another to purchase a new home. That kind of service helped Silicon woo Radius away from BankAmerica after 18 months of effort.

"This is old-time banking, believe me," says Chief Financial Officer Thomas O'Connor, 35. O'Connor says he subscribes to the "John Birch Society of accounting." For example, he doesn't permit loan fees to be booked up front; he amortizes them over the life of a loan. No officer, including Smith, has unilateral authority to approve a loan of any size. That's up to the six-member loan committee. Bank officials scour borrowers' monthly reports and drop by company facilities often to check for trouble signs, like vacant offices. Their money is at stake: Insiders own 20% of the bank's over-the-counter stock, recently trading at 12½, nearly twice book value but only seven times projected 1990 earnings.

What if the California economy sinks? One-third of the bank's portfolio consists of 12-month construction loans, primarily to speculative home builders. That's worrisome, although Smith hastens to note that none of the 200 units completed within the last year has gone unsold for more than 90 days. As for employers in the area, semiconductor manufacturers are cutting back, but software, telecommunications, medical electronics and environmental firms are expanding. "You can't believe the staffing plans that most of these companies have," Smith says.

Meanwhile, along Route 128 near Boston, many healthy technology firms are having trouble lining up credit. The banks are in worse shape than the customers. In May Silicon Valley Bancshares hired several of Bank of New England's veteran technology lenders and opened a Route 128 office.

Directly or indirectly, Roger Smith is betting almost all his bank's marbles on technology. But say this for the bank, it seems to make up in attention to detail whatever it lacks in diversification. ■

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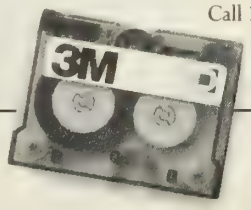

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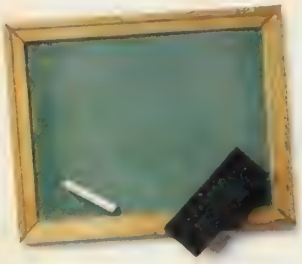

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Commentary by Esther Dyson

INFORMATION, BID AND ASKED

This is the age of the information economy and the age of the free market. Perhaps it is time we had a more liquid market in information—a sort of data auction, complete with bid and asked prices.

Phillip Salin, 40, started thinking about auctioned data almost two decades ago, as an economics undergrad and F.A. Hayek fan at UCLA. It was only after a Stanford M.B.A. and jobs as a stockbroker, at Lotus and in the private space business that he saw the costs of personal computers and online services come down to the point where the idea made practical sense.

In 1984 Salin started building American Information Exchange (Amix), a cross between a stock market and an online information service. Using their computers hooked to Amix via modems, users will buy and sell data such as product surveys and Wall Street research after haggling electronically over the price. In 1988 Autodesk bought 80% of the company (the rest is owned by employees), but Autodesk, which develops and sells software, is now attempting to find an additional investor to share the $6 million or so cost of implementing the service. Pilot operations are planned for next winter.

Aiming for a clientele that is already computer literate, Amix intends that the auctioned information will initially be about computers. If you are a stock analyst who follows Intel, you may offer to sell copies of your latest report. If your company is contemplating the purchase of laser printers, you may solicit advice about which brand is best in your situation. Or maybe you want some predictions about market share for Sun Microsystems' latest workstation. Competing bids come back from various experts.

In some cases, the data consist of an electronic copy of an existing document, priced at perhaps as little as $2 or as much as $100. In other cases the information does not exist until it's asked for. The

buyer is then in effect soliciting bids for consulting services—and bids will probably start at more like $20. Or a buyer might send a seller his data to load into the seller's proprietary spreadsheet or financial formula. Some vendors will offer custom services—a report plus one hour of telephone consultation, say.

Says Salin: "We're just trying to reduce the friction and transaction costs that keep people from trading their knowledge for gain." As middleman—broker more than dealer—Amix will leave to consumers and vendors the complexities of pricing and valuing the information. Amix won't care whether the information products it helps trade are delivered by mail or telephone or some other means. Unlike other online services, Amix is focused on the transactions more than the delivery of the information.

What keeps sellers honest? Customers are invited to comment on the services or products they purchase for the benefit of other potential purchasers, but they must identify themselves to do so. No vendor may delete those comments, although he may respond to them.

Amix will collect a percentage of each transaction from the seller, as well as storage fees for keeping offered information online. If the stuff doesn't sell, the overhead charges eventually induce the seller to remove the product. The buyer pays connection charges, plus whatever price he agrees on for the information he purchases.

The goal is to have the system organize itself as sellers and buyers gravitate to the proper topic areas, and prices respond to demand and competition; sellers as well as buyers can see what else is being offered. Aside from integrity and accounting rules enforced by the software, Amix has market managers, akin to local cops who know the neighborhood and can keep order and arbitrate disputes.

Why has a system like Amix been so long in coming? Because, goes the conventional wisdom, it's impossible to fix the value of intellectual property. Take the well-known conundrum: You search for three days and find no information on a job candidate—information that's extremely valuable because it means this fellow has committed no crimes. Or another: A single article leads you to make a stock purchase that nets you a 40% return in two days. Or you download five articles, and find that four of them repeat the content of the first. Juan's common knowledge is Alice's electrifying discovery.

Moreover, common wisdom has it that the law of supply and demand can't work for a product, such as information, that can be replicated at almost no cost. Two answers can be offered here. One, data may be cheap to duplicate, yet still costly for the seller to publicize and for the buyer to find; and two, the most valuable information tends to be that which is not widely available, either because it is timely or because it is of intense interest to only a few people. So the details are a little different, but the general rules of supply and demand still apply.

When Autodesk first signed on for the project in June 1988, the plan was to come out with a system for in-house text databases. One big corporation would use it to help its employees share their information resources. Eventually, Autodesk correctly concluded that what might make Amix most special was a pricing philosophy. So the project was recast in February 1989, but the investment required for a service as opposed to a boxed software project was far greater, and the time to profitability will be longer.

In the broader sense, the auction market for intellectual property is already thriving: People buy and sell whole companies and market visions. Now they will be able to buy and sell memos. ■

Esther Dyson is editor and publisher of the newsletter Release 1.0.

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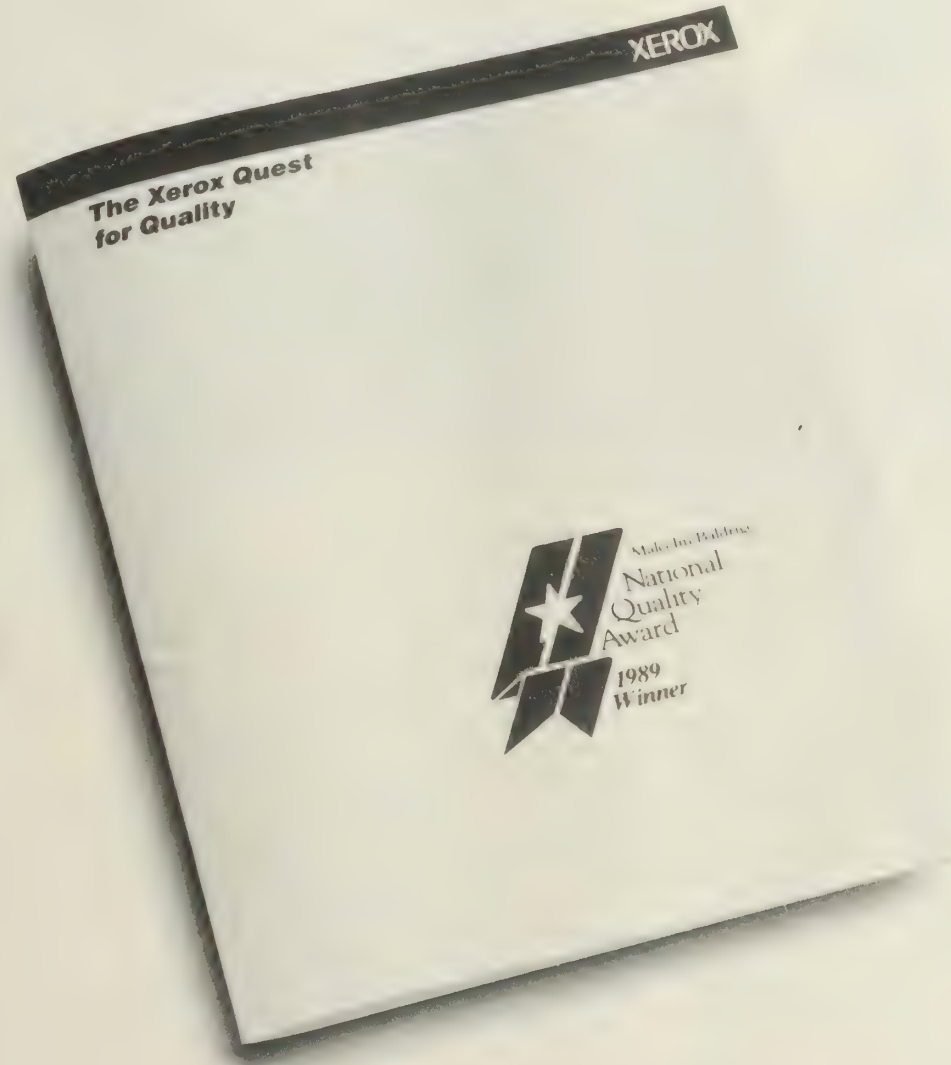

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Edited by Gary Slutsker

Werner Baumgartner invented a better mousetrap, but like a lot of inventors, he didn't have a clue about selling the thing.

The scientist and the sharpies

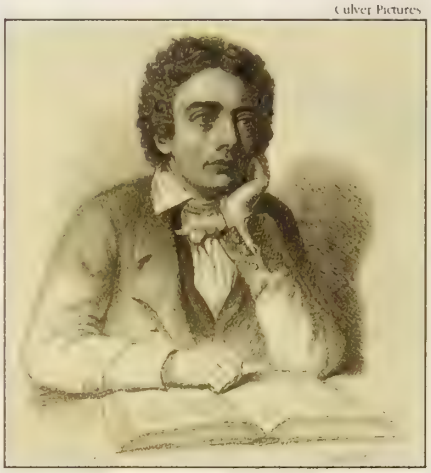
By Fleming Meeks

WERNER BAUMGARTNER keeps a portrait of John Keats on the wall of his crowded Santa Monica, Calif. office. "That's where it started, really," says the 55-year-old chemist, in an Austrian accent, "with his hair." Then he snaps open his briefcase and pulls out a framed lock of the 19th-century poet's wispy brown curls, acquired from an antiquarian book dealer in Texas.

What has a dead poet's hair got to do with business? It's a long story but an intriguing one. Five years ago Baumgartner analyzed the Romantic poet's hair for drugs, using a process he'd invented, and found traces of an opiate. The test results suggested that Keats, who died of tuberculosis at age 26, had been using an opium-based painkiller toward the end of his life. If the process could find evidence of drug use in the hair of a man dead close to two centuries, what could it do for living people? Today Baumgartner is chairman of Psychemedics Corp., the company he founded to develop and promote his drug test.

The test works on a simple principle. Hair, as it grows, takes nourishment from the blood. If drugs are present in the bloodstream, traces are left behind in the protein coils that make up hair. Washing, dyeing or bleaching will not remove them. An inch-and-a-half-long strand of hair can produce a drug-use profile stretching back over three months, rather than just days, as is the case with urinalysis. That makes it virtually impossible for a job applicant to beat a hair test, short of shaving his head and showing up in a very convincing toupee.

Culver Pictures



John Keats
Pay dirt from a dead poet.

Slowly, Baumgartner's test is gaining adherents. Companies like Steelcase Inc. and Harrah's Lake Tahoe Resort Casino use it to test job applicants. The Federal Bureau of Investigation is said to have used hair analysis to support claims that Washington Mayor Marion Barry's drug use was not just a one-time thing.

The key to Baumgartner's hair test is that it catches more drug users than does urinalysis. For example, at Steelcase, the office furniture maker, the proportion of positive test results using urinalysis declined from 15%, when its drug testing program began 11 years ago, to 2% by the mid-1980s. Steelcase suspected that some job applicants were beating urine tests by laying off drugs for a few days.

Steelcase then ran a test comparing hair testing with urine testing and confirmed its suspicions. Out of 774 applicants, 2.7% tested positive with urinalysis, but 18% tested positive with hair analysis. Early this year Steelcase dropped urinalysis in favor of hair analysis.

Baumgartner, whose family left Austria after World War II and moved to Australia, has solid scientific credentials. He earned a Ph.D. in physical chemistry from the University of New South Wales in 1963, and moved to Los Angeles, taking a job at California Institute of Technology's Jet Propulsion Laboratory, where he searched for organic compounds that could act as superconductors. In 1978 Baumgartner's German-born wife Annette, a chemist, was working on a contract for the Justice Department attempting to come up with a way to identify criminals by developing a "chemical fingerprint" from hair by breaking it down into fats, proteins and trace metals. The project flopped, but it gave Baumgartner an idea: Why not use the same sorts of tests to look for drugs in hair?

Baumgartner came up with a way to separate specific drugs from the proteins in hair. His process essentially dissolves the hair and destroys its proteins without destroying the other organic substances it may contain, such as drugs. Drugs, if they exist in the remaining solution, can then be identified in much the same way they are in urinalysis. They can be detected in amounts as low as one-billionth of a gram, using a technique called radioimmunoassay, in which antibodies that react to the presence of specific drugs are added to the solution.

It would be nice to report that Baumgartner's business is as sound as his chemistry. It is not. After his test produced pay dirt on Keats' hair, Baumgartner was mentioned in a 1986 *Time* magazine cover story on drugs in the workplace. A couple of stock promoters saw the article and offered to help raise money. The idea was a natural for a story stock promotion. In January 1987 Kashner Davidson Securities Corp., of Sarasota, Fla., peddled $3.5 million of Psychemedics stock to the public at $2 a share, with the help of a St. Louis ophthalmologist and a former car salesman. "I didn't know anything about the business world," says Baumgartner, who had been repeatedly turned down for research grants. "I'd never even bought a share of stock."

Baumgartner says he didn't know, for example, that Kashner and its

David Strick/Onyx

Werner Baumgartner of Psychemedics
"I didn't know anything about the business world. I'd never even bought a share of stock."

principals had been repeatedly fined and censured by the National Association of Security Dealers for improper record keeping. In addition, a Kashner employee had earlier embezzled money from customers' accounts. (Kashner's problems weren't mentioned in the prospectus for Psychemedics.) Had Baumgartner known, it would have been tempting to overlook Kashner's transgressions anyway. In addition to getting money to continue his research, Baumgartner and his wife received shares that were then valued at $6 million.

Two years and two presidents after going public, Psychemedics was on the verge of going broke. Total revenues for that period: $800,000, including $500,000 from two hastily negotiated licensing deals. Losses: nearly $3 million. "People say, 'If you're so good, why isn't the whole world coming to you?' " says Baumgartner. "I say, 'Wait a while. In the meantime, let's not go bankrupt.' "

Any danger of bankruptcy was averted last year, when a group led by Boston-based investment banker A.C. (Clint) Allen heard about Psychemedics' troubles and negotiated a deal to buy 54% of the teetering firm at 45 cents a share, well below market prices. Allen's clients include centimillionaire Wayne Huizenga, a proven entrepreneur with two enormous successes to his credit, Waste Management and Blockbuster Entertainment. Word of Huizenga's involvement sent the stock flying, from 75 cents to $3 almost overnight. In June the Allen group upped its stake to 58%. At the current price the company's market valuation is $42 million. That is an astounding 52 times latest 12-month revenues.

To live up to its giddy valuation, Psychemedics will have to grab a significant chunk of the drug-testing market, estimated at $240 million last year. That means taking business away from the medical-testing giants that dominate with urinalysis—companies that include Hoffmann-La Roche, Metpath and SmithKline Beecham. That will take some doing, but the prize is worth the try.

For Werner Baumgartner, the smart scientist and naive businessman, this story may well have a happy ending some day. After all, he got his insider stock at half a cent per share. For the individual investors getting in at $4—whom we may describe as nonscientists and naive businessmen—the odds are a lot longer. ■

Commentary by Michael Gianturco

STORM WARNINGS?

A high, thin, wispy cloud that marks an otherwise perfectly blue sky means rain. Farmers call such a cloud "the mare's tail"; the more formal description is a high cirrus pattern. It's a type of formation that precedes a moving weather front by as much as three days and predicts foul weather well before it hits.

The science and technology stocks have long been regarded as the mare's tail clouds of the broad market—a fairly reliable early warning system. The accuracy of these groups as an indicator of broad market direction has been demonstrated once again in the past weeks' trading, when the Dow confirmed the science and technology slump. The robust rally that appeared "for real" when I wrote my last column *(July 23)* stumbled not long after. How important is this reversal? And what are science stocks now suggesting as the future direction for the market?

The predictive power of the group is readily explained. Most science and technology stocks are traded on the secondary markets. Their appeal is based purely on their ability to go up: There are rarely any dividends paid out to console a shareholder sitting out a long down cycle. Because there is little brand loyalty toward science and technology stocks, money tends to move in and out of these issues earlier than it does for large-cap, exchange-listed securities. Speculative money moves early and moves fast, setting the science and technology stocks bobbing up and down much before the effect is felt on the Dow.

As the summer has progressed, we have seen—with increasing frequency—sudden sharp declines in specific technology stocks. Adobe Systems, the desktop publishing software firm, was perhaps the earliest, followed by Oracle (database software), Mentor Graphics (workstation software) and Borland (pro-

gramming languages and desktop software). One could read these retreats as special cases, or as a necessary correction affecting primarily the modish software stocks. But then the pattern broadened to include semiconductor manufacturers and other hardware companies.

Down went Weitek, the math coprocessor chip company, and, in a sort of selling climax, Apple, Lotus, Intel, Sun Microsystems, Motorola and Texas Instruments. Earnings reports were clearly triggering these declines—but it didn't matter if the reports were good, bad or indifferent. In other words, the selling became indiscriminate. Yet these many high, thin clouds of concern from the technology group were just so many traces against the blue summer sky of a near-3000 Dow.

Then, quite suddenly, the Dow plunged into a selling storm. With the benefit of hindsight, it appears that the telltales of the technology group were operating as reliably as ever. They certainly signaled the turbulence we have now seen in the broad market.

The question now is this: Has this been merely a summer storm or has it shown us a major top?

There is a case to be made that this is not a top. The Dow had, by many criteria, climbed up a steeple and was due for a correction. And typically the technology stocks do have a brisk selloff in the summer. Last year it came in early June; the year before in the dog days of July. Historically, the seasonal pattern for the group is a fairly simple cycle that bottoms around Thanksgiving, rises (with corrections) through September, then declines back to its low just before Thanksgiving.

These technology tergiversations tend to come in early spring, midsummer and early autumn, and may take back as much as 50% of gains achieved on each upward leg. Per this traditional (and statistically observable) pattern, we should expect to see a resumption of the rally's progress in the science and technology stocks almost immediately.

And if we do not, then there may be real cause for concern about not only this group but also the Dow and the broad market.

I think three stocks should tell the story: *Oracle Systems, Intel* and *Microsoft.* They are, of course, the top companies—each with significant proprietary technology, a leadership position in its market and a solid rate of growth.

Intel is unique in the recent rally among semiconductor manufacturers. Most of the market's recent favorites have been in a subcategory: the so-called fabless semiconductor companies like Altera and Chips & Technologies. You might call them "lite" semiconductor companies: They design but don't fabricate, and so are spared the costs of heavy depreciation expenses and large fixed overheads. Intel, by contrast, has a heavy capital commitment to manufacturing. As a result, it is a better litmus test of strength in technologies. It also happens to be, at around 44, stabilizing near the bottom of its long-term trading range.

Oracle, perhaps the premier company in database software, has sold off so vigorously that it seems reasonable that the sellers are now out of the stock. Like Intel, it is at the bottom of its normal trading range and should show progress upward from 17 over the coming weeks.

Microsoft is dominant in IBM-compatible operating system software for desktop machines, and the new Microsoft Windows program has the industry agog. The stock has become something of a market icon and institutional favorite. It should stabilize somewhere above 68.

I would look for significant upturns in these three specific stocks. I regard them as important bellwethers, not merely for the science and technology group, but also for the broad market and the Dow. ■

Michael Gianturco is president of The Princeton Portfolios, a New Jersey asset management firm, and edits The Top Ten, *its weekly computerized newsletter on investments in science and technology.*

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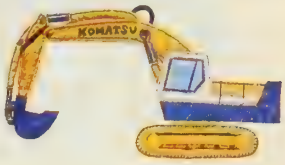

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Personal Affairs

Edited by William G. Flanagan

Want to import a grand old English manor? Or have a classic New England saltbox rebuilt on your property? The results can be stunning. So can the costs and delays.

Historic houses to go

Laurie Sparham/Network

London warehouse overflowing with parts of old English homes
The building blocks for "new" historic homes in the U.S.

By Evan McGlinn

THIS FALL Peter Seaman, a private investor who runs the Nantucket Holding Co., will begin construction on his dream house on 4 sweeping acres in Greenwich, Conn. When completed, by Christmas 1991 it is hoped, the house will turn heads even in Greenwich, which boasts some of the fanciest homes in North America. Seaman will be lord of a Georgian manor featuring facades with decorative limestone and sandstone molding and 8-foot Georgian windows. It will have a Tudor-style billiard room and a marble foyer with ornate moldings and cornices. Plans call for a proper English garden, complete with a reflecting pool.

But what will really attract attention is that virtually every part of the 18,000-square-foot house will be 150 years old or even older. It will have been imported from England—brick by brick, window frame by window frame—and reassembled here.

The chap responsible for Seaman's manor is Raymond Durber, 41, president of Heritage Properties, a contracting firm based in Rugby, England. In the business for 20 years now, Durber has disassembled and rebuilt some 200 English houses. Quips Durber: "We've been building over here for the past five to six hundred years, so it's getting a little crowded."

Durber is just starting to disassemble old English homes and rebuild them here in the U.S. He is also building a development of nine, Regency and Georgian homes on 476 acres at Shelburne Glebe, 25 miles northwest of Washington in the Virginia hunt country. He also plans to reassemble a Tudor estate to serve as the main clubhouse at the Pinehurst Country Club in Pinehurst, N.C.

Durber's structures are built of bits and pieces taken from dozens of buildings that have been torn down over the years. Customers interested in importing homes through Heritage are taken on tours through the English countryside to view existing Regency, Georgian, Jacobean and Tudor estates. After a buyer selects a style he likes, Durber will comb through his warehouses and salvage yards and gather up hundreds of doors, fireplaces, stone moldings and the like taken from similar houses.

Seaman and his wife, Nancy, fell in love with Wyberton Park, a Georgian estate in Lincolnshire. They won't get the actual house. But their finished product will be put together like Lego with period materials.

Naturally, the homes Durber reas

sembles do incorporate some modern conveniences—up-to-date plumbing, appliances, insulation, air-conditioning and, of course, central heating. After all, the reason some of these homes were ripped down in the first place was that the owners went broke trying to heat them.

The interior will also be somewhat altered: Instead of large staff quarters and 13 bedrooms, there will be only 6 bedrooms and a family room.

But the billiard room will have 200-year-old mahogany block flooring and paneling, and the wine cellar in the basement will have brick bins and slate coolers. Durber will also landscape around the house so that the place "looks like it's been there for hundreds of years."

Durber's also bringing over his own craftsmen, who will put the giant jigsaw puzzle together on the site. Heritage Properties acts as the architect and general contractor and supplies the pieces.

The total bill? One rosy estimate: $1.5 million. But you can expect to pay about twice that. Because Seaman happens to own a real estate and building company, he hopes to cut costs by about 50%.

Frank Van Riet is a patent attorney for American Cyanamid in Stamford, Conn. He and his wife, Joan, wanted to live in a historic home but couldn't find any for sale where they lived. After months of searching, they found a 1670 saltbox in Wallingford, Conn., 50 miles away.

The house was about to be taken down by Willard Restorations of Old Wethersfield, Conn.; like Durber's Heritage Properties, Willard buys, dis-

Richard Mandelkorn

Colonial home, circa 1735, transplanted to North Easton, Mass.
Five years ago it was barely more than a woodpile.

Peter Margonelli

Disassembled historic homes on Stephen Mack's farm in Ashaway, R.I.
Reassembly can be an art—and an unpredictable expense.

Wyberton Park, a Georgian estate in Lincolnshire, England, to be cloned in Greenwich, Conn.
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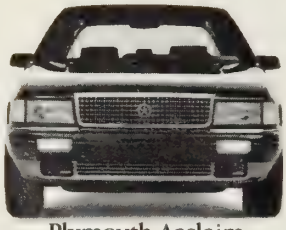

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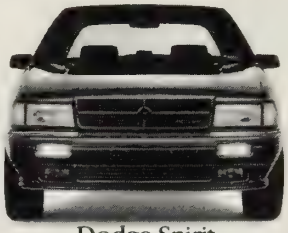

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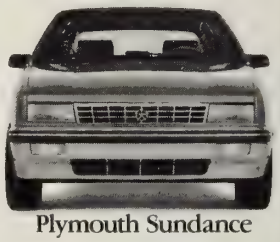

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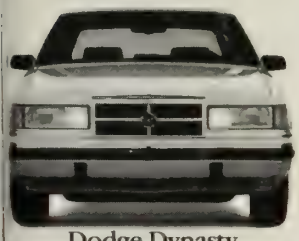

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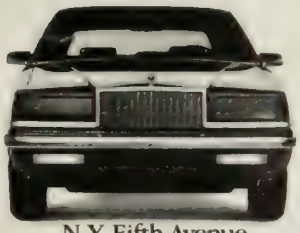

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CHRYSLER PLYMOUTH DODGE

mantles and reconstructs old homes.

The Van Riets bought the saltbox from Willard, who took the house apart piece by piece and hauled it to the Van Riets' 1-acre site in North Stamford. But it was 2½ years before the Van Riets put the finishing touches on the house, much longer than they had bargained for. The Van Riets' final tally came to about $500,000, including the cost of land, the barn and the driveway. That was far more than the Van Riets originally figured.

In the Northeast, especially, there are quite a few historic homes that have been saved from the wrecker's ball but await buyers willing to endure reassembly's pains and expense. They can be considerable *(see box)*.

In some states, historical societies publish newsletters listing old buildings that are about to be torn down or are already in storage. For example, in its bimonthly newsletter, *Connecticut Preservation News*, the Connecticut Trust for Historic Preservation has listed a late-18th-century tavern, complete with the oak post-and-beam frame, 70% of the original floor boards and the original staircase. Ask ing price: $17,500.

Cheap? Hold on: The real expense i in reconstruction, site acquisition an preparation, and so on. Willard Resto rations figures that re-erecting th tavern would cost at least $300,000 excluding land costs.

Still, many people who have gone t the trouble to build homes this wa seem to be more than satisfied. "Peo ple come over and think they hav walked into a museum," beams Fran Van Riet of his 1670 saltbox. "It's jus great."

Whose old house is it, anyway?

Stephen P. Mack, 43, is an architectural designer and preservationist who takes the reconstruction of historic homes very seriously indeed. On his 50-acre farm in Ashaway, R.I. he stores 20 disassembled old homes—from primitive saltboxes to formal Georgian estates. Cost, if you're interested in buying: $20,000 to $125,000.

Mack's services are not for the faint of heart nor the shallow of wallet. For Mack cares more about architectural authenticity than modern creature comforts.

"It's my job to make sure the client doesn't make a mistake," says Mack. "And if you hire me to reconstruct an 18th-century house and you want to turn it into the Golden Arches, you're going to have trouble."

In 1985 Michael Jaye, a 45-year-old manufacturer of women's apparel, bought a 1735 colonial from Mack and had it erected on an acre in North Easton, Mass., using a contractor not of Mack's choosing. The cost of the post-and-beam frame, doors and flooring was $66,000. Jaye first estimated his total expenses would be about $350,000.

But Jaye wanted some modifications and additions to the 250-year-old center-chimney house. Hot-water heat, for example. Mack wouldn't buy it, insisting the baseboard heaters would ruin the look of the interior. Jaye also wanted wider doors—which Mack also vetoed as historically incorrect.

"With Steve Mack, everything takes a backseat to his zeal for authenticity," says Jaye.

Jaye's headaches weren't confined to style alone. Several features of the house had to be changed to meet local building codes. The ceiling of the back stairway, for example, had to be raised and the fireplaces' oak lintels had trouble meeting fire regulations.

Jaye was also unhappy with the oak and pine floorboards, which first had to be dried out after years of storage. When the boards were fitted together, the result was less than marble smooth—true to the period, but not what Jaye had in mind.

And even after the house was finished, the windows had to be kept open with sticks, since sash weights were not used in those days. "They were aesthetically pleasing, but practically they were a disaster," Jaye observes.

Jaye says the completed house, including landscaping, substantial landfilling and some major additions he wanted, wound up costing about $725,000, over twice his original estimate. But he agrees that he wound up with "one of the most beautiful houses in the area." Wanting to live in the city, Jaye sold it last year and moved to a town house on Boston's Beacon Hill. The selling price of the house: $675,000. In all, Jaye figures he lost $100,000 on the project.

Jaye's advice to others thinking of buying and reassembling an old house: Make sure you check with previous clients—something he says he never bothered to do with Mack.

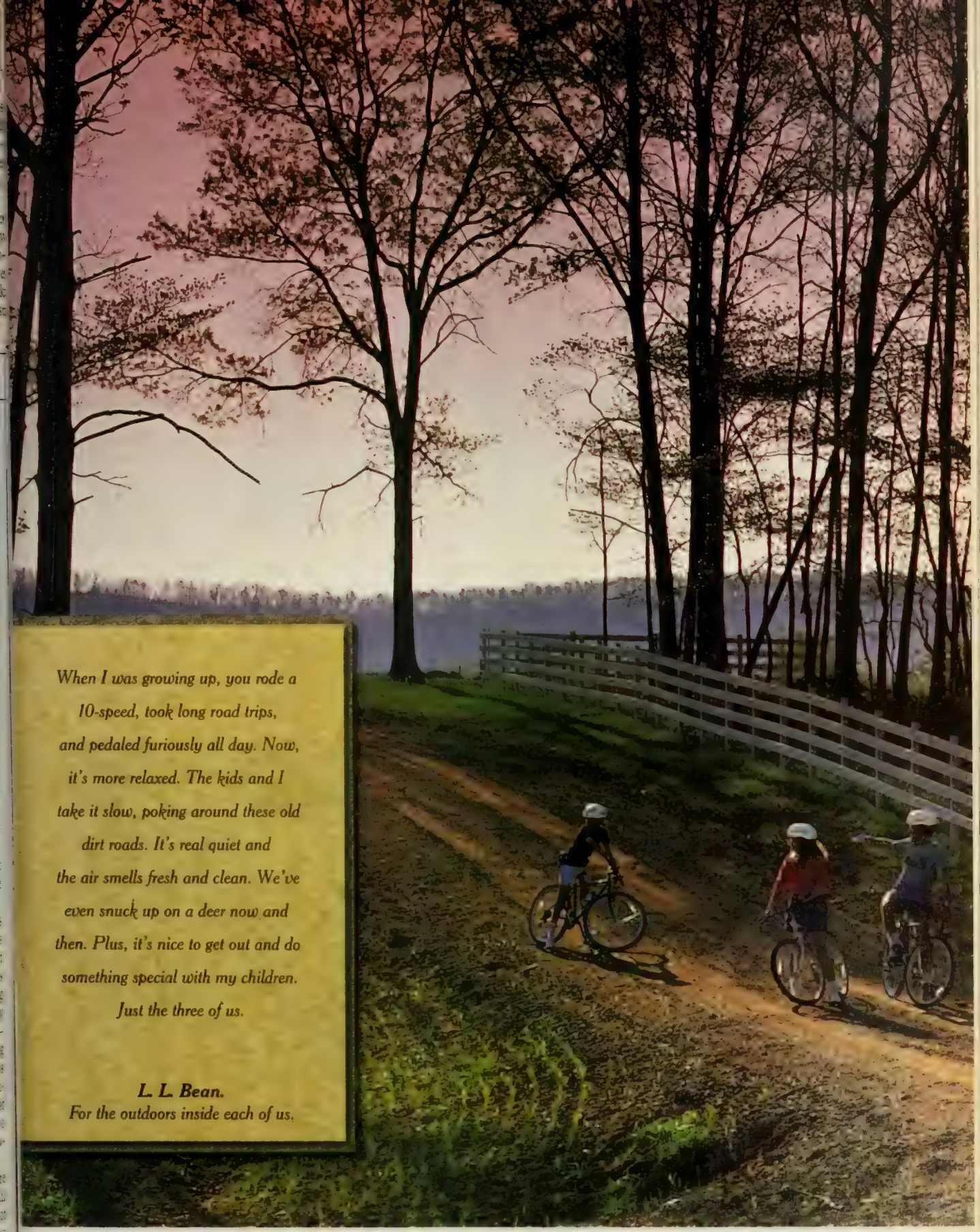
"Here I am, a grown guy moving hundreds of millions of dollars over the years and I never asked the guy for a reference," says Jaye. "I made a classic mistake." He adds, "The guy has a wonderful eye, but it just got to the point where he wasn't building my house, he was building his own work of art."

Mack tells a different story, and claims cost overruns and other problems were not his doing but resulted from Jaye's wanting something other than a reassembly of the original home—including expanding the structure. He says Jaye was "unsatisfiable" and not typical of his clients. "I want to make the homes livable," he adds.

Moral: Make sure you discuss in detail exactly what kind of home you want up front, and be prepared to pay handsomely for later changes. —E.M.

Peter Margonelli

Stephen Mack, at home with history
"A zeal for authenticity."



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Mexican contemporary art has been pulled along by the great bull market in art. Here's why the professionals buy in New York and not south of the border.

Mexican art dance

By Christie Brown

THE MEXICAN PESO was falling rapidly in 1978 when Nicholas Ingram, a Los Angeles psychotherapist, made his first visit to Mexico City. As he toured the sprawling city's sights and shops, he grew fascinated by the art he saw. As well as works by Mexico's great 20th-century muralists—Diego Rivera, David Siqueiros and José Orozco—Ingram was drawn to paintings by other contemporary artists. Among these were Rivera's wife, Frida Kahlo (who died in 1954), Francisco Toledo and Chavez Morado (both still living). Ingram saw that canvases by all these painters were going for $3,000 or less.

Ingram sensed an opportunity. He bought a few paintings, went home, took out a loan for $50,000 and dashed back to buy 30 more.

Ingram returned annually and kept collecting. From an investment point of view, his timing was superb. In 1982 Mexico's banks were nationalized, and the peso hit new lows. Panicking, Mexican collectors unloaded their prized paintings in exchange for dollars. Ingram kept buying.

It wasn't long before forgers cottoned on to the game, too, and a lot of fakes appeared. But Ingram resisted the temptation to buy from unusual sources and stuck to reliable galleries and the artists themselves. "It was a good opportunity to own museum pieces," says Ingram, "I thought it was a fluke."

As a result of his persistent buying, Ingram now owns one of the largest collections of contemporary Mexican art in American hands. It totals over 400 paintings and drawings and includes pieces by Rivera, Siqueiros, Orozco, Rafael Coronel and Nahum Zenil. The collection fills his Los Angeles home and his Mexican farmhouse, which he bought last year for $20,000, situated on 5 acres one hour east of Mexico City.

Ingram has never spent more than $10,000 for a work, including a Rivera drawing, and today many of his early buys are worth well over ten times

Scott Brinegar

Nicholas Ingram with works by Orozco (top left), Siqueiros (left center) and Rivera
When the peso started falling, Ingram started buying.

that amount—in Mexico, but not necessarily in New York. Here's why:

As the Mexican economy has stabilized in the last few years and as the bolsa has taken off, the local art market has taken on new luster. Prices have risen quickly as Mexican collectors are once again strong buyers. (It probably helps that during the 1982 crisis Mexicans of means saw that artwork was, indeed, readily salable for strong currency.)

Yet the prices of Mexican art being sold in New York have not risen as dramatically. One reason is the eagerness of many Mexican and South American artists to break into the international scene. "The artists agree to have their works here sold lower to attract an international client," says Carla Stellweg of New York's Zocalo Gallery. Adds Mary-Anne Martin, a New York art dealer, whose art gallery deals mainly in Mexican and South American art: "In New York the supply of Mexican art is good but demand is low, whereas in Mexico supply is low and demand is high."

As a result, Ingram and other collectors now find some of their best buys in New York, not south of the border.

For example, in 1986 Ingram snagged "Fata Morgana," by Mexican artist Roger von Guten, at Sotheby's for a mere $1,300. What the international market didn't know, but Ingram did, is that von Guten is an established star in Mexico, where similar works by him sell for as much as $15,000.

The better buys to be found in New York have also caught the attention of Harvey and Elena Kreuter. Owners of RK&H Fashions Inc., a sportswear importer and wholesaler, the Kreuters travel frequently to Zacatecas, in central Mexico, where they are building a manufacturing plant. But they usually only browse the galleries there. Most of their 30 pieces of Latin American (mostly Mexican) art, collected since 1978, have been bought in New York, mainly from the Zocalo Gallery. "A painting that costs $30,000 here costs $50,000 in Mexico," says Harvey Kreuter.

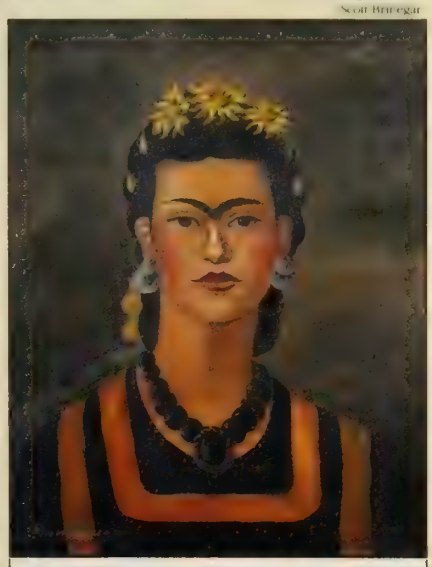
Adorning the rooms in the Kreuters' New York City home are paintings by Alejandro Colunga (who is currently the darling of Mexico City galleries), Adolfo Patino and José Luis Cuevas. Paying up to $20,000 per artwork, the Kreuters figure they would have paid 50% to 75% more for similar works in Mexico. Although the Kreuters have no intention of selling, they have no doubts where to go if they do—Mexico.

Ingram would too. The only works that he would sell in New York are the few artists who already have international market appeal, like Rivera, Orozco, Siqueiros, Dr. Atl and Kahlo. Mexico now considers their works part of the national patrimony and does not allow them to be exported without a permit.

Jeanne Strongin

Collectors Harvey and Elena Kreuter
Pay $30,000 here or $50,000 in Mexico.

Scott Brittegan



Frida Kahlo by Roberto Montenegro
Rivera's wife, now a cult figure.

What do the most prized paintings now fetch here? Drawings and watercolors by Rivera commonly sell for less than $50,000, and his major paintings bring about $500,000. Yet the record breakers for this group are works by Frida Kahlo, Rivera's third wife, who has become something of a cult figure.

Speared by a metal bar during a bus accident when a teenager, she was badly crippled for life. Her marriage to Rivera was stormy—they divorced and remarried, and both had numerous affairs. Most of Kahlo's 150 or so paintings depict some expression of deep personal torture: pain, jealousy, loneliness and miscarriage. (The best place to see Kahlo's paintings are in the Frida Kahlo Museum, a part of Rivera's rambling house and studio in Coyoacán, the Mexico City suburb where Rivera's friend Leon Trotsky was assassinated.)

Lately, superstar Madonna has become a Kahlo fan. She has bought two paintings by Kahlo, and has reportedly commissioned a screenplay about Kahlo's life.

Prices for Kahlo's works—only about 20 are in private hands outside Mexico—have jumped in multiples the past year. New York dealer Martin paid a record $506,000 for a Kahlo painting last year at Christie's, three times the estimated price, bidding against a Mexican collector. Just six months later at Sotheby's Martin paid a new record price of $1.4 million for a Kahlo self-portrait, bidding against a European collector.

This fall New York City will host several major exhibits of Mexican art. On Sept. 28 the National Academy of Design will exhibit Women in Mexico; on Oct. 2 the IBM Gallery of Science & Art will display Mexican Painting 1950-1980; on Oct. 10 the Metropolitan Museum opens Mexico: Splendors of Thirty Centuries.

Three Mexican art galleries—Galeria OMR and Galeria de Arte Mexicano, both in Mexico City, and the Galeria Arte Actual Mexicano, in Monterrey—are banding together in New York this fall. They will show artists' works at the Parallel Project in Soho Sept. 26 through Jan. 20.

Parents who wonder how to encourage their offspring to be creative and entrepreneurial will profit from the story of computer whiz Gilman Louie.

"This is the time to chase your dream"

By Graham Button

GILMAN LOUIE'S PARENTS had an unusual way of encouraging him and his two brothers to be industrious and creative. The boys were allowed no store-bought toys, just the materials with which to make their own games. As a youngster growing up in San Francisco, Louie mostly made board games, out of wood and cardboard.

By the time he was a teenager, Louie had moved on to making computer games. In 1978 he went off to San Francisco State University, to study business administration. But he continued to write the software for computer games; in his sophomore year he decided to start a company to market the games.

Here again Louie's parents encouraged his creativity. To back their son's fledgling enterprise, they took out a $60,000 second mortgage on their home, which at the time represented almost their entire savings. Louie's mom recalls telling her son: "This is the time to chase your dream. You might as well go all the way."

What began as a company designing software on the Louies' kitchen table soon engulfed practically the entire house. In lieu of salary the young volunteers who staffed the company got 30% of the company's stock.

Almost two years would pass before the company sold its first product. Louie's brothers, meanwhile, worked to help pay off their parents' mortgage. Among friends and relatives, Louie recalls, "The typical response was: 'When are you going to stop playing these stupid games and do something serious?' " But his parents stuck by him.

By 1986 it had become clear that Louie's business was indeed serious. Having invented eight video games, he sold 80% of his company to Pergamon Press, owned by Robert Maxwell, the British billionaire publisher, for an estimated $1 million. Louie has a free rein to run the company, Alameda, Calif.-based Sphere, Inc., which has been profitable for the last two years. At the present rate, sales should double this year, to $12 million.

Louie's specialty is simulations. His electronic handiwork includes Falcon (retail price, $59.95, for the version that runs on an IBM PC), a game that simulates—with intense realism—what it's like to pilot an F-16 fighter jet. Then there's Vette! ($49.95), the game that lets players tear through the streets of San Francisco in a souped-up Corvette. Louie is also responsible for bringing Americans Tetris ($34.95), the popular computer game that was the brainchild of Alexey Pajitnov, an applied mathematics expert at the Soviet Academy of Sciences. Around 70% of Sphere's games are purchased not by teenagers but by people between the ages of 25 and 45.

About three years ago, some F-16 pilots approached Louie and complimented him on the extraordinary level of sophistication of his Falcon simulation game. That led to meetings between Louie and a one-star admiral in Washington, D.C. Now, teamed with General Dynamics and another defense contractor, Sphere is one of three finalists in bidding for a $3 million contract to build six low-cost F-16 flight simulators for the Air National Guard.

If Sphere gets the deal, it could eventually snare orders for another 50 to 150 units from the Air Force and the Air National Guard. And that's just for F-16 simulators. Louie says the technology could be rolled over into developing low-cost trainers for other military—and perhaps even commercial—aircraft.

Rory Lysaght

Gilman Louie with his Falcon computer game
Can he parlay computer games into big government contracts?

On a parallel front, Louie is overseeing development of Sphere of Influence, likely to be released by the end of the year. This is an ambitious game in which a player assumes the role of a world leader and deals with a myriad of variables—from economics to ecology. The goal is to positively influence the course of civilization over the next 25 years.

"We want to give people a real-life experience," says Louie of his games. But the best experience, from an entrepreneurial point of view, was the real-life one created for him by his parents. ■

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Faces
Behind the Figures

Edited by Jason Zweig

Caring for Kinder-Care

Mike Clemmer

Kinder-Care boss J. Phillip Samper
Good-bye, Kodak. Hello, kids.

After 29 years at Eastman Kodak, Vice Chairman J. Phillip Samper walked out the door earlier this year when he wasn't picked to succeed Colby Chandler, retiring chairman and chief executive. "I then became interested in pursuing other challenges," says Samper.

He certainly found one. In June Samper, 56, became chief executive of Montgomery, Ala.-based Kinder-Care Learning Centers, Inc. With 1989 revenues of $344 million—as compared with Kodak's $18 billion—Kinder-Care would not seem to be much of a challenge to a tough, aggressive marketing executive like Samper. But thanks to $389 million in debt and a disastrous diversification program undertaken by Kinder-Care's previous management, the company badly needs help.

Right now, Samper is completing a program to sell most of Kinder-Care's 1,259 day care centers and lease them back. If successful, the program should raise about $300 million; Samper plans to use that to reduce debt, which would fall to $89 million, or 46% of capital.

To improve the quality of child care, Samper has cut back sharply on the opening of new centers, to 40 this year, from the historic rate of 70 a year. And to take advantage of the company's nationwide reach, Kinder-Care is signing up corporate clients for whom it will manage on-site centers. Kinder-Care has already signed up 23 companies, including Citicorp and Walt Disney, which have committed so far to a total of 28 on-site facilities.

So far, so good. In the first half of 1990 the company's revenues jumped 17%. Despite a skimpy profit of $1.9 million for the half, operating earnings before taxes and debt service were up 13%. The son of a Colombian father and a mother who is descended from Brigham Young, Samper predicts much bigger things to come. As he puts it: "I have the winds of growth at my back."—**Subrata N. Chakravarty**

Plitt's progress

Five years ago Henry Plitt was worried that many movie theaters would be driven out of business by the home-video boom. That's one reason he sold his 600-screen chain, then th nation's fourth largest, to Cineple Odeon for about $130 million (includ ing debt). Now Plitt, 69, is buyin back 150 of those screens from belea guered Cineplex, together with anoth er 50 screens from some smaller oper ators, for a little over $40 million. A $200,000 per screen, he is payin slightly less than the $217,000 he re ceived from Cineplex in 1985. Bette yet, movie ticket prices are rising they're now $7.50 in some cities.

"I sold my theaters at 13 times cas flow," says Plitt, "and I'm buyin them back at 8 times cash flow."

What of the national glut of screens the total number of which ha climbed to more than 23,000 today versus 18,000 in 1980? Plitt replie that his new theaters are in Minneso ta, Washington, Utah and Idaho, al states where screen overbuilding ha not been a problem.

Plitt's own career is the stuff o cinematic success stories. During th Second World War he was one of 5 men in the Pathfinder division tha landed in Normandy the night befor the D-Day invasion. Wounded an decorated several times during th war, he later toured the U.S. as a wa hero on the Paramount theater ci cuit. That led to a job with Para mount, where Plitt worked his wa up the ranks before buying the theate chain in the 1970s.

Aside from price, there is anothe reason Plitt is getting back into the aters. Since selling out to Cineplex i 1985, he has become deeply involve with Showscan Film Corp., an o-t-c

Stephen Ellison

Henry Plitt, theater mogul
Too many cinemas? Not in Idaho.

traded company of which he is now chairman. Showscan has a patented process for making very high definition films (FORBES, *Sept. 4, 1989*). But Showscan reported a loss of $2 million last year on sales of $23 million. The problem is that producers won't make films using the technique until theaters are equipped to show them, and theater owners won't install it because there are no movies to show.

Plitt says he intends to break the impasse by installing Showscan equipment in some of the theaters he is buying. That bit of vertical integration may be the most intriguing aspect of Plitt's reentry into the theater business.—**Eric Schmuckler**

Junk lady

Just about every junk bond dealer on Wall Street knows the name Elisabeth Spector these days. Formerly a director at Merrill Lynch Capital Markets, Spector, 42, joined the government's Resolution Trust Corp. last November as director of finance and administration.

Right now the toughest part of her job is figuring out what to do with the $3.7 billion (face value) of junk bonds the agency has taken in from various failed thrifts.

Spector does not lack for interested advisers. After all, the RTC could dole out millions in advisory fees. Smelling money, scores of Wall Street firms have flocked to Spector's Washington office to peddle their ideas on what to do with the bonds. Salomon Brothers is said to be particularly interested in getting some RTC business.

One problem: Resolution Trust Corp. rules prohibit any advisory firm from trading junk bonds for its own account. But Spector hopes to get around that by requiring any RTC adviser to create a "Chinese wall" separating the trading part of the firm from the advisory group. In the end, adopting such a scheme may be the only way to harness the market knowledge of a major Wall Street firm to the government's delicate task of liquidating its junk bond positions.

As for offloading the bonds, financiers have suggested combining the RTC's "good" junk in a pool with its "bad" junk and then issuing new securities that would be collateralized by the pool. Another possibility is to auction off the bonds outright, offering the buyer 90% nonrecourse financing from the government.

This would mirror the way California's Columbia Savings & Loan Association agreed to sell its $5 billion (approximate face value) junk bond portfolio for $3 billion to Canada's Gordon Investment Corp. late last month. But, Spector says, "selling with financing is our last resort."—**Mary Beth Grover**

RTC director Elisabeth Spector
Wall Street is watching.

Paul Fetters

Jamie Tamaka

Nolan K. Bushnell, inventor of videogames
"I am looking for big successes."

Bushnell is back

California entrepreneur Nolan K. Bushnell helped launch the computer-game industry when he founded Atari back in 1972. He sold Atari to Warner Communications in 1976, and it ran into difficulties several years later. Another Bushnell startup, Pizza Time Theatre, Inc., a chain of pizza/video parlors, flopped in 1984. So did his 1986 effort to move Hasbro toys into interactive videogames.

But you can't keep a good entrepreneur down. These days Bushnell is moving into multimedia systems, which can be attached to any television or stereo. Running a world atlas program on a multimedia system, for example, would enable the user not just to see a map of the world but to call up videos of selected cities or listen to how various street names are pronounced in the native language.

Commodore International Ltd. has a multimedia machine due in the stores this fall—at under $1,000 each—and Bushnell has signed on to help with the launch. Bushnell's angle? He owns Vent Inc., a company that makes software programs for Commodore's new machine. Says Bushnell, "If the project is successful, we'll all make out like bandits."

Bushnell, who has founded some 20 companies over the years, makes no apologies for his hit-and-miss record. "I play the game quite differently from other venture capitalists," he says, "in that I am very, very happy to fund a company very thinly to test it, and if it does not look extremely promising, I am more than happy to let it flounder. I am looking for big successes."—**Reed Abelson**

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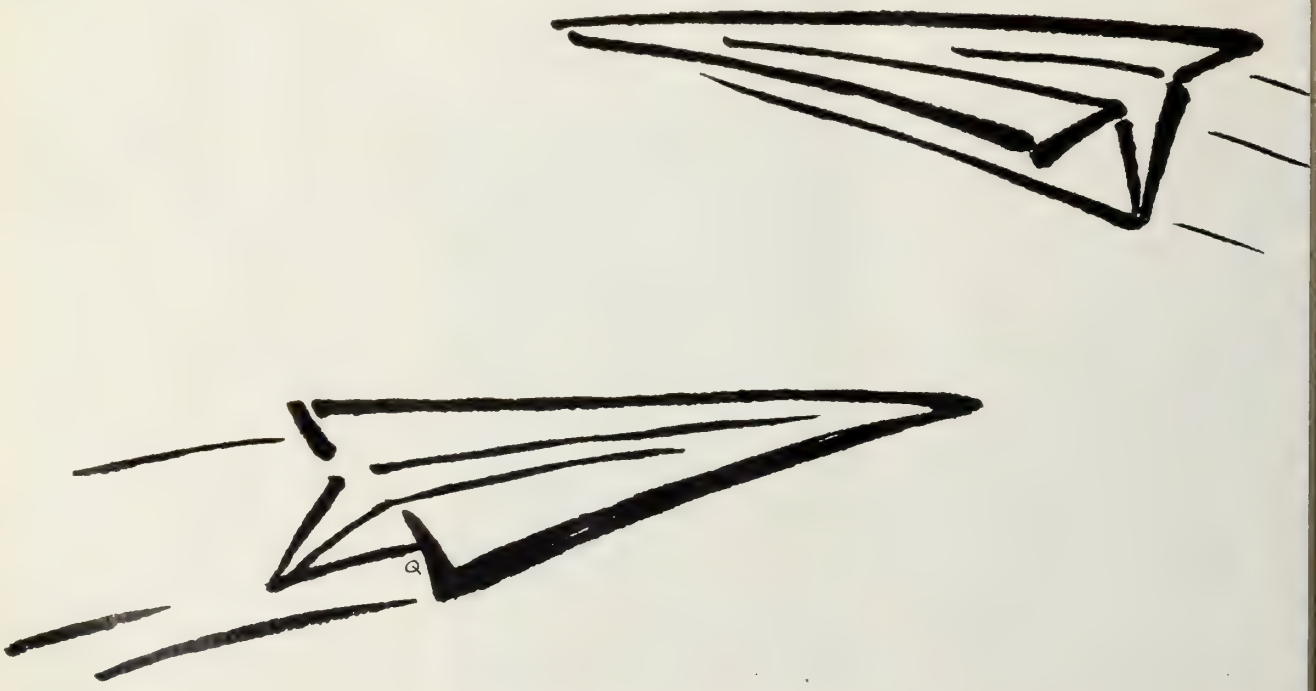

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The Forbes Wall Street Review

By Eric S. Hardy

Byron R. Wien, the U.S. investment strategist for Morgan Stanley's equity research department, says the market is tiring. "At the beginning of 1990, I thought the Dow would reach the 3000 level by midyear, then be vulnerable to a correction," he says. "I think we're now in the middle of that correction." He points to lackluster trading volume and disappointing advance/decline ratios as signs of market weakness. Although Wien doesn't expect stock prices to decline too significantly, his asset allocation model is a fairly conservative 40% in stocks, 45% bonds and 15% cash. The stock groups Wien likes the most are technology and banking.

The market continues to punish companies for even slightly disappointing earnings. Dow Chemical is one of the most recent victims. And during the past two weeks Lotus Development lost more than a third of its value. The decline in technology issues helps explain why the Nasdaq composite index lost 4.7%. The rest of the market fared a bit better: The Dow industrials fell 1.7% while the equally weighted Wilshire lost 1.8%. The capitalization-weighted Wilshire decreased 2.8%. On a positive note, the modest 1.2% annualized rate of increase (preliminary) in the gross national product for the second quarter makes lower interest rates a real possibility. That should help bond prices and, indirectly, stock prices.

The Best Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Kansas Gas & Electric	25⅛	26%	16	2,375	3.1
Castle & Cooke	36⅝	20	22	4,736	2.8
Freeport McMoRan	16⅞	16	15	613	1.8
FMC	37⅜	15	8	566	1.1
American Barrick Resources	21⅝	13	64	3,848	1.4

The Worst Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Lotus Development	21¾	–34%	11	12,414	2.0
United Telecommunications	26⅜	–30	14	14,449	2.1
US Shoe	17⅞	–29	13	4,954	2.4
Lowe's Cos	36⅞	–24	17	5,770	2.8
Raychem	26⅜	–24	NM	2,682	1.7

Closeup on the Market

Index or investment	Price	2-week change
Wilshire index 6,000 stocks, capitalization weighted	3,391.85	–2.8%
Wilshire index 6,000 stocks, equal weighted	21.52	–1.8
Dow Jones industrials 30 stocks, divisor-adjusted price average	2,920.79	–1.7
S&P 500 Capitalization weighted cross section, major stocks	355.91	–2.6
NYSE Capitalization weighted, all listed common stocks	194.55	–2.4
Amex Capitalization weighted total return: stocks, warrants	356.33	–1.6
Nasdaq Capitalization weighted, all issues except warrants	445.43	–4.7
Amex international market index Capitalization weighted, 50 largest ADRs	318.77	–3.5

Index or investment	Price or rate	2-week change
Europe, Australia, New Zealand and Far East[4] (EAFE) a dollar denominated capitalization weighted index	913.70	–1.8%
Institutional[5] Approximately 200 stocks with high institutional ownership	112.35	–5.9
Individual[5] Approximately 200 stocks with low institutional ownership	102.44	–3.5
Russell 2000 index 2000 stocks with small market values, capitalization weighted	164.04	–3.2
Gold[6] (composite quote of 6 major dealers)	$369.20	3.0
Yen[6] (per $U.S.)	150.45	2.0
Commodity index[6] (CRB futures index, 1967 = 100)	234.75	0.5
Oil[6] (W Texas Intermediate)	$20.30	10.0
T bills[6] (90 days)	7.56%	–9 basis points[7]
Broker loan rate[6]	9.25%	unchanged

Note: All data for periods ending 7/26/90. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. Stocks listed above have market capitalizations of $500 million or more. [1]Capitalization weighted, prepared by Wilshire Associates, Santa Monica, Calif. [2]Average daily volume over a 2-week period. [3]Average daily volume over the last 2 weeks, divided by the average daily volume over the preceding 3 months. [4]Morgan Stanley Capital International Perspective. [5]For period ending 7/27/90. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. [6]Knight-Ridder Financial Information. [7]A basis point is equal to one-hundredth of a percentage point. NM: Not meaningful.

Forbes/TUCS Institutional Portfolio

By Steve Kichen

Who made the most money?

Investment	Value of $10,000 invested 6/30/80[1]	Change last quarter
Institutional equity account[2]	$41,642	5.2%
Institutional balanced account[2]	38,152	3.8
Institutional fixed income account[2]	28,638	3.5
Wilshire index	43,677	5.5
S&P 500	47,359	6.3
Shearson Lehman Govt & Corp	30,027	3.8
Treasury index	23,081	2.0

Segment performance and cash flow

Segment	Most recent quarter: median total return	Most recent quarter: shift in institutional holdings
Equity	5.9%	–0.9%
Fixed income	3.5	–1.7
Cash equivalents	2.1	–0.4
Convertibles	4.2	6.1
Other[3]	2.1	0.0
Total	3.4	–1.1

If your portfolio is outperforming the S&P 500 these days, congratulations. You are beating most professional money managers.

For the 12 months ended in June, the total return (price change plus reinvested dividends) on the S&P 500 was 16.4%, compared with 12.4% for the median equity manager. The institutions didn't fare any better over the long term. A hypothetical $10,000 investment in an institutional portfolio in June 1980 is worth $41,640 now. The S&P 500 grew to $47,360.

What did the pros do wrong? For one thing, they usually keep a percentage of their holdings in cash, leaving them slightly behind a pure stock index in a bull market. In addition, the money managers don't restrict their portfolios to the 500 big stocks tracked by Standard & Poor's. During the past decade small-company stocks lagged the big-company stocks. Even so, the pros didn't do as well as the 6,000 stocks in the Wilshire index. In ten years a $10,000 investment in the Wilshire grew to $43,680.

Over the last 12 months the return on stocks in the institutional portfolio with betas over 1.2 was 14%; for stocks with betas under 0.8, 10% (for more on betas, see p. 114).

Blockbuster Entertainment continues to show significant increases in institutional holdings, while Lyondell Petrochemical is, once again, near the top of the institutional sell list. All this information comes to us from Santa Monica, Calif.-based Wilshire Associates, which monitors the Trust Universe Comparison Service covering over $400 billion in pension assets in more than 4,000 pension portfolios.

What the institutions bought and sold

Big stocks[4]

Stock bought	Total quarter return	P/E	Stock sold	Total quarter return	P/E
Avery International	–14.5%	12	Chambers Development	29.3%	43
Beneficial	7.0	10	Coca-Cola Enterprises	3.3	18
Blockbuster Entertainment	40.0	37	CoreStates Financial	4.1	8
Conner Peripherals	49.3	22	Imcera Group	4.9	18
Hilton Hotels	1.1	22	Lyondell Petrochemical	17.2	5
Loctite	33.2	18	Molex	9.2	17
MacMillan Bloedel	–1.1	8	Paccar	–5.8	6
Mapco	17.7	14	PolyGram NV	2.0	17
MBIA	31.5	14	Rorer Group	1.3	32
Santa Fe Energy Resources	3.1	NM	Society	3.8	7
Stanley Works	–3.1	13	Union Texas Petroleum	4.8	16
Turner Broadcast Sys	14.5	NM	Williams Cos	–6.0	28

Secondary stocks[5]

Stock bought	Total quarter return	P/E	Stock sold	Total quarter return	P/E
Abiomed	8.5%	NM	Michael Baker	9.2%	18
Amtech	7.5	NM	DeVlieg-Bullard	–5.3	13
Farr	56.2	15	Fulton Financial	–10.8	8
Heritage Bankcorp	14.6	NM	Gainsco	24.6	10
Martech USA	19.0	11	ILC Technology	41.1	NM
Mid Am	–10.5	10	Kent Electronics	43.9	15
Moscom	44.6	20	Larizza Industries	–9.5	NM
Mycogen	30.4	NM	Maine Public Svcs	6.9	8
Preferred Health Care	27.9	26	RLI	36.1	8
Repligen	21.7	NM	HH Robertson	–11.1	NM
Seitel	8.5	15	Tandon	100.0	15
York Research	23.7	22	Thermo Cardiosystems	32.1	NM

[1]Total return. [2]Includes cash. [3]Real estate, foreign investments, venture capital, guaranteed income contracts. [4]Stocks with $1 billion or more in market capitalization at start of quarter. [5]Stocks with market capitalization between $40 million and $200 million at start of quarter. NM: Not meaningful.
Note: What the institutions bought and sold measures the change in the institutional holdings as a percentage of a stock's total capitalization, net of price changes. Data for quarter ending 6/30/90. Prepared by the Trust Universe Comparison Service (TUCS), a service of Wilshire Associates, Santa Monica, Calif.

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OMNI MAGAZINE

A TOOL FOR THE 21ST CENTURY.

Statistical Spotlight

Worried about the direction of the market? There are ways to lighten up without switching out of stocks.

Calm stocks for a nervous market

By Eric S. Hardy

IF 90-POINT SWINGS in the Dow make you nervous—or if you just think that the post-1987 rally is a little tired—you should reduce the risk in your investment portfolio. There is more than one way to do that. One is to sell stocks. Another is to shift into stocks with lower levels of market risk—low-beta stocks, in the jargon of modern portfolio theory.

MPT, a big fad in academia during the 1970s, was no doubt oversold during its early days: It was not the magic market-beating formula that some people thought it was. Nonetheless, it does provide useful insights about how best to diversify a portfolio, and some money managers have used it to help screen for stocks.

What exactly is a beta? First, what it is not. Beta is not exactly a measurement of volatility. Rather, beta measures the average response of a stock to a market move. If, when the market moves up (or down) 10%, a stock tends to go in the same direction but only 5%, it has a beta of 0.5. A stock like that is often low in volatility, but it doesn't have to be. Gold stocks have low betas not because they aren't volatile but because they scarcely respond to market moves at all. They march to their own beat.

How can you get betas for stocks you presently own or are considering owning? *Value Line* and Standard & Poor's publish betas on numerous companies. You can calculate your own betas by collecting monthly price data and running it through a worksheet that does regressions.

If you are worried about the market's direction but don't want to be out of it, buy low-beta stocks. They will reduce the tendency of the portfolio to fall as fast as the market during a decline. If you are, as well, astute at finding low-beta stocks with good growth prospects, you may also do well if the bull market continues. The stocks in the table all have positive five-year earnings growth and price/earnings ratios below 19.

While the beta concept is now well established on Wall Street, the exact details of how to calculate it vary from analyst to analyst. Most people study the relationship between a stock's moves and the market's over at least three years, and the table uses a five-year time frame. But one very successful portfolio manager calculates his betas with a one-year price history: Louis Navellier, a money man in Incline Village, Nev. and publisher of *MPT Review*, a monthly stock tip newsletter. Navellier's one-year betas are low or even negative for stocks that have been climbing steadily to new highs, ignoring the market's ups and downs. These are the stocks that have the best chance of landing on the newsletter's recommended list. Only two of the stocks with low five-year betas in our table also show up in *MPT Review*: Chiquita Brands and Universal Foods.

The best beta to use? If you expect a choppy market with small corrections, the Navellier approach should work well. In a prolonged bear market, you'd be better off with stocks having low five-year betas. ■

Stocks to help you sleep at night

The relatively low betas on these stocks mean that they are likely to be underperformers in a roaring bull market. On the other hand, these issues would probably fall less than the averages in a bear market.

Company/business	Recent price	52 week high	52 week low	Beta*	Earnings per share fiscal 1989	Earnings per share 1990 est	Latest 12-month P/E	Yield	5-year EPS growth
Chiquita Brands Intl/food proc	26¾	29¾	14⅛	0.31	$1.79	$2.18	10.6	1.5%	32%
Freeport McMoRan/minerals, energy	34⅞	35½	29	0.67	1.75	1.78	6.8	4.3	27
Kimberly-Clark/paper	78⅛	83¼	61½	0.79	5.26	5.50	14.4	3.4	16
Luby's Cafeterias/restaurants	30½	31⅞	23⅛	0.67	1.62	1.77	18.0	2.1	11
Mapco/energy	45¼	46¼	32⅞	0.77	3.03	3.82	14.0	2.2	7
Myers Inds/vehicle maintenance	20	20⅝	14⅛	0.73	1.45	1.67	13.2	1.0	26
National Presto Inds/appliances	43¾	44½	35	0.60	3.89	3.78	11.2	3.4	11
Progressive/insurance	49¼	49¼	29⅝	0.66	2.82	3.76	15.5	0.9	31
LS Starrett/precision instruments	23⅞	25⅜	20⅛	0.64	2.36	2.50	9.2	2.8	11
Universal Foods/food proc	31¾	33⅞	21⅜	0.77	1.59	1.90	18.1	2.1	23
S&P 500	357.09	368.95	322.98	1.00	24.33	26.71	16.5	3.4	13

*Slope of regression line of monthly excess returns on stocks, July 1985–June 1990, against S&P 500 returns. Excess return is total return less return of riskless T bills. *Sources: Wilshire Associates; Media General and Institutional Brokers Estimate System (a service of Lynch, Jones & Ryan), via Lotus One Source.*

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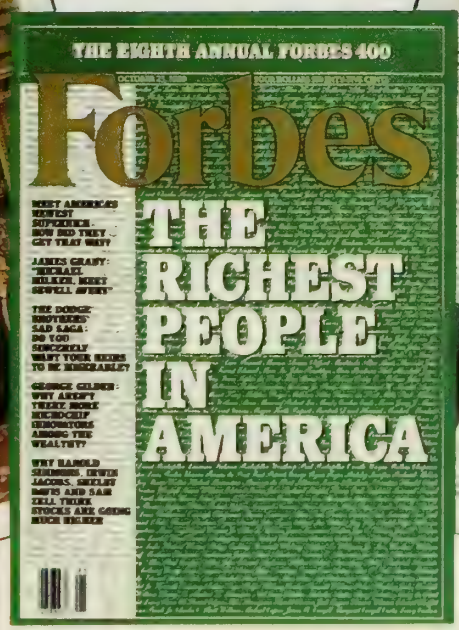

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ARCHER DANIELS MIDLAND COMPANY N

Reports Preliminary Unaudited Earnings of $1.71 a Share For Fiscal 1990

DECATUR,IL, July 16-Archer Daniels Midland Company reported preliminary unaudited earnings of $483,522,000 or $1.71 per share, for the fiscal year ended June 30, 1990 based on 282,743,000 average shares outstanding. This compares with earnings of $424,673,000 or $1.52 per share for the previous year based on 280,107,000 average shares.

Provision for income taxes were $269,639,000 in 1990 compared with $243,061,00 for the previous year.

(Contact: R. E. Burket, Vice President, Archer Daniels Midland Company, P.O. Box 1470, Decatur, IL 62525 Phone (217) 424-5413.)

AMETEK, INC. N

AMETEK COMPLETES PURCHASE OF ELECTRIC MOTOR MANUFACTURER, REPORTS SECOND QUARTER EARNINGS

Paoli, PA (JULY 23, 1990) AMETEK, Inc. (nyse-AME) announced today that it had completed its purchase of a major European electric motor manufacturer and also reported that its earning of 24 cents per share in three months ended June 30 equalled last year's second quarter earnings.

AMETEK said that it had purchased the Ciaramella-OEP Group, a leading producer of appliance and vacuum motors located near Milan, Italy under terms of an agreement announced July 9. Supplying mainly European customers, the thirty-year-old business will sell nearly $70 million worth of motors this year, according to AMETEK'S president and chief executive officer Walter E. Blankley. "This new business, together with AMETEK'S established electric motor businesses, gives us a strong position in the growing world market for these motors," Blankley said.

AMETEK reported that second quarter sales this year increased about nine percent to $157.6 million and produced net income of $10.5 million or 24 cents per share, compared to last year's second quarter net income of $10.9 million, also equal to 24 cents per share.

First half sales this year showed a strong increase while earnings for the six months ended June 30 were $20.2 million or 46 cents per share, compared to the $22.2 million or 50 cents per share earned in the first half of 1989 which included a record first quarter. Sales in the current period, including additional volume from aircraft instrument businesses acquired in the third quarter of last year, totaled $326.5 million versus $289.2 million shipped in the same period of 1989.

AMETEK's president indicated that reduced profit margins in the second quarter and year-to-date were primarily due to costs of moving and integrating an aircraft instruments business purchased last year, higher cost in plastics packaging business resulting from a recently imposed tax on the use of certain materials, and the downturn in the automotive market. "We benefited from a strong recovery of profitability in the Electro-mechanical group, although volume dropped slightly following the sale in May of one division from that group—Houston Instrument—to a computer graphics equipment manufacturer," according to Blankley. While operating income was higher in the quarter and first half of 1990 last year's net income for these periods included a nonoperating net gain from the disposition of two product lines.

"New order rates in aircraft instruments and Electromechanical products have continued strong during this six month period," Blankley noted, "and AMETEK's backlog of orders, now in excess of $270 million, has increased more than nine percent from year-end."

Late in the second quarter AMETEK completed the purchase, from the Du Pont Company, of two instrument businesses which had sales last year of about $20 million.

	Three months ended June 30	
	1990	1989
Net sales	**$157,591,000**	$145,158,000
Net income	**10,467,000**	10,898,000
Net income per share	**.24**	.24
Dividends per share	**.16**	.15
Average shares outstanding	**44,284,062**	44,223,871

	Six months ended June 30	
	1990	1989
Net sales	**$326,506,000**	$289,216,000
Net income	**20,225,000**	22,202,000
Net income per share	**.46**	50
Dividends per share	**.32**	.30
Average shares outstanding	**44,276,117**	44,149,843

(Contact: Darrah Ribble, AMETEK, INC. Station Square Two, Paoli, PA. 19301. Phone (215) 647-2121.)

ASHLAND OIL, INC N

ASHLAND HAS RECORD QUARTER;

Ashland, Ky. July 23, 1990 Ashland Oil, Inc. (NYSE:ASH) said today it had all-time record net income of $100 million, or $1.79 a share, for the quarter ended June 30, 1990. This was more than double the $44 million, or 78 cents a share, earned in the quarter last year. Operating income for the quarter just ended was a record $188 million, compared to $102 million in the quarter a year ago. Sales and operating revenues were $2.2 billion in both quarters.

For the nine months ended June 30, 1990, Ashland had net income of $123 million, or $2.21 a share, compared to $126 million, or $2.26 a share, last year. Sales and operating revenues were $6.5 billion for the 1990 period and $6.2 billion in 1989.

"We're very pleased with our results for the quarter," said Ashland Chairman and Chief Executive Officer John R. Hall. "Net income, earnings per share and operating income all reached record-high levels.

"These results were led by an outstanding performance from Ashland Petroleum Company and bolstered by a strong third quarter from SuperAmerica, substantial improvement from Ashland's construction and exploration operations, and higher equity income from our coal investments," he added.

Ashland Petroleum's $127 million in operating income represented the best quarter in petroleum company history. Hall attributed the results to very favorable refinery margins and excellent refinery operations.

SuperAmericas's continuing expansion program resulted in higher volumes for the retail gasoline marketing chain. This factor and good margins for both gasoline and merchandise resulted in operating income of $10 million for SuperAmerica, a 13 percent increase from the quarter last year.

Operating income of $16 million from APAC con operations was substantially higher, due to more weather conditions in the latter part of the quarte

Ashland Exploration's operating income of $8 m more than double the level of the 1989 quarte income of $14 million from coal investments, inclu Mineral Corporation and Ashland Coal, Inc., also n doubled.

Operating income from Ashland Chemical and declined, reflecting soft demand in some chemical as well as the U.S. automotive oil market.

"In summary, we were delighted with our resul quarter," Hall said. "Although refinery margins clined from their mid-June peak, they remain at levels. With continued strength in refinery margi positive outlook for the majority of our non-refin nesses, we are optimistic that Ashland can have fourth quarter and a good year."

(Contact: W.P. Hartl, Director-Financial Commu Ashland Oil, Inc, 535 Madison Ave, New York, N. (212) 421-1250.)

TELEFLEX INCORPORATED

TELEFLEX REPORTS SECOND QUARTER EARN

Limerick, PA, July 19, 1990 Teleflex Incorpora TFX) today reported that revenues for the secon ended July 1, 1990 increased by 28% to $116 compared to $90,606,000 for the same three mo year. Net income increased 6% to $7,632,000 or share for the quarter versus $7,220,000 or $.66 for the same period in 1989.

Revenues for the first six months of the 1990 24% to $225,254,000 compared to $180,974,000 Net income increased 6% to $14,905,000 or $1.36 compared to $14,043,000 or $1,29 per share for period in 1989.

In commenting on the Company's second quart Lenox K, Black, Chairman, said, "While some of ou have been affected by the soft economy, revenues non-cyclical businesses were unusually robust. In ond half, we anticipate weakness in the autom marine markets to be more than offset by streng medical and industrial groups."

COMPARATIVE SUMMARY OF REVENUES AND E (Unaudited)

	Three Months Ended		Six Months E
	July 1, 1990	June 25, 1989	**July 1, 1990**
Revenues	**$116,061,000**	$90,606,000	**$225,254,000**
Income before taxes	**$11,563,000**	$10,775,000	**$22,583,000**
Net income	**$7,632,000**	$7,220,000	**$14,905,000**
Earnings per share	**$.70**	$66	**$1.36**
Share outstanding			**10,886,000**

Teleflex Incorporated is a company which so neering problems by the development and appl new specialized technologies.

(Contact: John F. Schoenfelder, Vice President, & Treasurer. Teleflex Incorporated, 155 South Lime Limerick,PA. 19468. Phone (215) 948-5100.)

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MONEY & INVESTMENTS

Many munis that came to market a decade ago with high coupons will soon be redeemed. Here's how to profit.

MONEY MARKET ALTERNATIVES

By Ben Weberman

Some good opportunities are opening up in the bond market if you want tax-free income over the short term. Just ask your broker to find you a long-term municipal bond callable in the next few years. In most cases the yield will be nearly two percentage points above the 5.29% currently being paid on tax-free money market funds. This without the usual risk of holding long-term bonds.

It'd be a good move to make right now, since billions of dollars of high-grade, high-yield municipals issued just under ten years ago will soon be paid off in advance of maturity. The reason: Most long-term borrowers have the right to call their bonds starting ten years after the initial offering.

With interest rates considerably lower than a decade ago, borrowers will undoubtedly exercise their call rights to refinance at the lower rates. Those call dates are coming up, creating a buying window for the investor, who can earn the higher yields up until the bonds are called.

Approximately $5.5 billion of high-grade municipals are still outstanding from the 1981-84 period, when long-term issues carried an average 11% to 12% coupon, free of federal income taxes. Rates then fell like a rock at the end of 1985 and have stayed in the 7% to 8% range ever since.

At least $2 billion of these issues will definitely be called before their final maturity, since the issuers have already taken steps to guarantee a refinancing at the first available opportunity.

This process is called advance refunding, and it works like this: Although the outstanding securities can't be paid off because the first call date is still ahead, the borrower sells a new issue at the prevailing lower interest cost. He then buys U.S. Treasury issues carrying the same yield, and pledges these with a trustee as collateral to be used for paying off the older, outstanding bonds at their first call date.

Investors holding the 10%, 11% or higher-coupon municipals that have already been refunded in this way will naturally have to give up their fat yields on the tenth anniversary date or whenever the first call date is. For the investor who wants to get into this game, the trick will be to find the callable issues, since holders who bought the double-digit bonds a decade ago aren't going to be eager to sell into the secondary market.

But with persistence—and patience—you can get them. Firms such as Merrill Lynch and Shearson Lehman Hutton that have high-coupon specialists at their municipal desks will be most likely to help you find them.

The yield you'll get will be set largely by two factors: the high annual coupon rate on the bond and the certainty that the issues will be called because of advance refunding. Prevailing interest rates will also have an influence, although the call price—usually par or slightly above—acts as a ceiling, regardless of market yields.

Here's how it works out: A high-quality, A-rated, noncallable 20-year tax-exempt obligation might trade at a price to yield 7.15% to maturity. But the same issue, coming due in, say, 3 years, would carry a yield of only 6.35%. The lower yield reflects the shorter maturity date and hence the lowered market risk. What about the bonds about to be called? The yield on a 20-year bond that has been outstanding since 1983 and will be callable in 3 years would have a market yield somewhere between the two, probably around 6.8%.

Keep in mind that issues available in the municipal bond market on one day may be out of stock the next. Here are two issues that have been available recently:

One is a refunded issue, Washington Public Power Supply System's 14¾%s with an original maturity in 2018 at $100. The AAA-rated issue currently sells for $117.50 and yields 6.50% to its refund date in 1992, when it will be called at $103. That's about 25 basis points more than other high-coupon issues maturing in 1992, or about 40 basis points more than new lower-coupon issues with the same maturity.

In another case, Clark County Airport, Nev. 10% A-rated revenue bonds due 2011 are callable in 1993 at $103. The issue is trading at $110.36 to yield 7% to first call. The yield to maturity if the bonds were noncallable would be well over 7.5%. On the other hand, a newly issued three-year bond of similar quality would come to market today to yield 6.6%. Thus, an investor paying the premium price would get 40 basis points of additional yield.

Suppose interest rates spiked up and the issue weren't called in 1993? No big problem. The investor would get a fat return to maturity. The yield to final 2011 maturity at the purchase price of $110.36 would be a generous 8.9%. That's because the trading price is held below its normal level by the early redemption option. A noncallable bond of the same quality due in 2011 would be tagged with a price of $128 to yield 7.35% to maturity in today's market. ■

Ben Weberman is a contributing editor of Forbes magazine.

Though the market is at an alltime high, most stocks have missed the boat. But there's another boat coming—soon.

SHIFTING LEADERSHIP

By David Dreman

Does your portfolio feel tired, listless, left out of the action, as the Dow vacillates around 3000? If it does, you are far from alone. The great majority of stocks have not participated in the rally. Although the Dow Jones industrial average and the S&P 500 have moved onto new high ground, other broadly based indexes—Value Line, the Russell 2000 and Nasdaq (o-t-c)—are well below their 1987 highs. Only 29% of the 12,000 publicly traded companies have bettered their 1987 peaks.

Even within the S&P 500 itself there are substantial disparities. The index, which represents over 70% of the value of all stocks listed on the New York Stock Exchange, was up 30.5% last year. Yet only 50 stocks accounted for two-thirds of the return, averaging a gain of about 50% each. The other 450 stocks, representing two-thirds of the S&P's value, were up about 20%. The Value Line index, which weights equally 1,700 of the largest companies traded in the country, was up only 14.4%, while the Nasdaq index was up 21% and the Russell 2000, 16.3%. The majority of stocks continued to underperform the big averages during the first half of 1990.

Does this enormous concentration in a small number of stocks sound warning bells that a bear market is imminent? Some people would answer yes, but I don't think so. Price/earnings ratios are reasonable; underlying fundamentals of most stocks are good; and interest rates and inflation have been held in check so far.

What we have been witnessing since the beginning of 1989 is some aberrant market behavior brought on by fears that a recession is closing in (an event, incidentally, that has been predicted by many experts every year since 1983). Last year, however, this fear obsessed the marketplace, resulting in investors' placing enormous emphasis on recession-resistant stocks—companies whose earnings they believed will rise or at least remain stable when the downturn hits. Thus "safe stocks," such as foods, beverages, pharmaceuticals and consumer products companies, climbed steadily, driving their P/Es sharply higher. Even the regional Bells, whose earnings were down 6%, saw their average price shoot up 55%.

But woe to any company not considered recession-proof, regardless of how solid the value. Such stocks sharply underperformed the S&P and the Dow, while some industries, such as autos, computers and other technological sectors, actually declined, in spite of the sharp rise in the S&P. Thus, while Coca-Cola was up 76% and Pacific Telesis 69%, IBM and Ford dropped 19% and 8%, respectively.

However, in recent months attitudes began to change. Increasingly, investor interest fanned out to companies representing good value, while stocks considered "recession-proof" that had disappointing earnings have been bombed. Computer and other technology groups, for example (recommended in my Jan. 8 column) are among the market leaders this year, with Compaq and IBM up 60% and 25%, respectively.

In this environment, the concentration into recession-resistant stocks should continue to decline as investors' attention focuses more and more on the many bargains passed up as the major averages made their lonely climb.

Here are a number of unloved stocks that I would look at today:

Cincinnati Financial (86) is a small, well-managed property and casualty company whose earnings have grown at a 27% rate over the past five years and are likely to be up more than 15% again in 1990. The stock trades at a P/E of 12 and yields 2.8%.

Club Med (24) is a major resort operator on this continent as well as in Asia and Europe. Earnings have been moving up strongly in the past few years and should be up 15% in 1990. The stock trades at 12 times 1990's earnings, yielding 1.3%.

Ford Motor (42) is a good example of a stock that has missed the post-crash bull market. The market has ignored the company's significantly improved competitive position near the bottom of the current auto cycle relative to the last one. Ford should earn $5.75 a share this year, versus being $2.85 in the red back in 1980. The stock yields 7.2% and trades at a P/E of 9.

Nestlés ADR (31), a Swiss-based company, is the world's largest packaged food producer. Earnings growth is beginning to accelerate, with income likely to be up 12% to 15% this year and continuing to grow at a good rate thereafter. The stock trades at a P/E of 12 times 1990's earnings and yields 0.2%.

Scott Paper (50) is one of the world's largest producers of consumer paper products. Earnings have been impacted by the heavy costs of starting up six new paper machines—five of which are abroad, where demand is growing at a faster clip than at home. Per-share income should increase at a 15%-plus rate once the startup cycle is completed. The stock trades at a P/E of 10 and yields 1.6%. ■

David Dreman is managing director of Dreman Value Management, L.P., Investment Counsel, New York, and author of The New Contrarian Investment Strategy.

MONEY & INVESTMENTS

The rocky stock market of July doesn't presage a crash. It looks, instead, as if it is settling into a narrow trading range.

UNSTEADY AS SHE SLOWS

By Ann C. Brown

With the market hitting severe air pockets in the area of Dow 3000, there is lots of talk about a recession ahead. Will there be one? It's going to be a squeaker, but I don't think there will be a textbook recession. The Fed's surprising mid-July decision to resume easing short-term rates, even though inflation was considerably higher than its target, probably saved the day.

There have been—and will continue to be—rolling readjustments and selected sector setbacks. With the bulk of second-quarter earnings now in, roughly 10% are better than expected, 15% worse and 75% fair-to-muddling. But, overall, it looks as if enough businesses will be doing enough business to keep the next several quarterly GNP growth figures in the black. Unemployment is bound to rise, but probably not to uncomfortably high levels, thanks to a demographically related decline in the number of new entrants to the work force and an increasingly service-oriented society.

I expect short-term interest rates to fall further over the balance of the summer. There could even be a cut or two in the prime rate before the elections if the demand for loans stays sluggish and banks find themselves in improved financial condition. The need for 30-year money to help finance the continuing budget deficit, the off-budget deficit (a.k.a. RTC) and the rebuilding of the Eastern European, Russian and LDC economies should guarantee that long rates remain relatively high for the foreseeable future. All this should result in a return to the normal yield curve—and make money market funds and other cash equivalents somewhat less attractive.

As investors seek higher returns for their cash, the stock market could be a beneficiary. This is one reason that—in spite of the frightening gyrations of late July—I do not expect a crash in equity prices similar to October 1987. Another factor mitigating against a capital "P" plummet is that there already have been many sharp individual stock price corrections. And many stocks are currently selling closer to their 52-week lows than their highs. And too much new money to be idle too long has recently been poured into equity mutual funds by a performance-hungry public.

I do look for increased issue-by-issue volatility over the next several months, even though I expect the market in general to trade in a relatively narrow range of 2750-3050 on the DJI. The number of mergers and acquisitions could pick up as foreign investors use their increasingly strong currencies to buy U.S. companies. Also, those U.S. companies whose stocks are trading at way above their average price/earnings ratios could swap their richly multipled stocks for shares of companies that are long on value but low in price/earnings ratios.

I continue to think most of the corporate growth in the 1990s will be by megamerger. By the end of the decade there should be more and more "supercompanies" and fewer and fewer merely large or medium-size businesses. The widening of the world market for goods and services will necessitate the economies of scale. The trend toward a reduction in tariffs, quotas, subsidies and other mandated trade restraints will help spur multinational corporate development.

Not only will externals encourage the formation of giant corporations, the financial market internals will continue to favor hugely capitalized companies. Big pools of money need big places to go, as indicated by the relative performance of stocks on the Amex and the over-the-counter versus the New York Stock Exchange in recent months. These days I find myself increasingly interested in stocks that I think may be on some corporate shopping lists as well as having considerable appeal based on their own fundamentals.

Dun & Bradstreet (46) is a company with a niche business, no debt, a strong cash flow, minimal insider ownership and troubled earnings of a nonrecurring nature. DNB stock has sold as high as 71 per share and could be back to around 60 once the dust settles from its lawsuit losses.

Diebold Inc. (44), like Dun & Bradstreet, is also a niche business (automatic teller machines, safes, vaults), has a good cash flow and modest insider ownership. DBD is almost debt-free and has promising prospects for its products overseas. The company's earnings have been on a five-year plateau but heavy incoming ATM orders suggest a stock price recovery to the low 50s over the next 12 months.

Lotus Development (23) dropped 25% in two days after reporting a second-quarter increase in earnings per share of over 100%. Analysts were disappointed that sales rose only 32%, and voiced concern that LOTS might be too late with its spreadsheet for Microsoft's popular Windows 3.0 software. I think Lotus Development will continue to show annual earnings-per-share growth of 20% to 30% or more and that at 10 times 1990 estimated earnings the stock is a buy. ■

Ann C. Brown is chief executive officer of the equity advisory and portfolio consulting firm of A.C. Brown & Associates.

Is the investment adviser who beat the market in the past guaranteed to beat it again? No, but he is still a good bet.

STICK WITH WINNERS

By Mark Hulbert

Is superior past performance by a fund or an investment adviser any assurance of future superior performance? Has the holder of yesterday's hot hand got a good chance of holding hot hands in the future? My just-completed survey of investment newsletter performance as monitored over the last ten years by the *Hulbert Financial Digest* suggests that the answer is yes.

This finding flies in the face of the argument that performance is random, from which it follows that it makes no more sense to invest with winners than losers—since each adviser has an equal chance of doing well in the future. It also throws cold water on the idea that performance regresses to the mean, from which it follows that it makes sense actually to seek out the losers—since they are more likely than the winners to do well in the future.

My data provide a strong statistical basis for believing that going with the winners makes good investment sense. While not all long-term winners have continued to beat the market, the spread between their average performance and that of the losers has continued to exist.

One reason some observers fail to detect this relationship between past and future performance: It depends crucially on how the past is defined. Focus on the short-term and the relationship disappears altogether. My data show that one month's worst performer is just as likely to do well the next month as the first month's best performer. Even quarterly or yearly performance doesn't appear to be correlated with the next quarter's or year's performance. (Keep this in mind next time you receive advertising that attempts to capitalize on a short-term high ranking in the *Hulbert Financial Digest;* just toss it in the wastebasket.)

But a positive correlation between past and future does materialize when we expand our focus to cover a longer period of time. It becomes especially pronounced when performance is judged over five years. The 8 newsletters that beat the S&P 500's total return during the first half of the last decade on average made twice as much during the second half as the 13 that were the first period's losers (73% versus 30%).

The skeptics' likely response? The decade's first-half winners must have beaten the losers by incurring greater risks. (Random walkers always believe that the only way to make more money is to undertake more risk.) But their objection has no validity in this case: The decade's first-half winners beat the losers over the last five years with only three-fourths the risk.

The most outstanding example of this relationship between past and future is the *Zweig Forecast,* edited by Martin Zweig. This newsletter ranked in fifth place among all those that I followed for performance over the first five years of the decade, and was one of eight that beat the S&P 500's total return. Did it continue that leadership in the decade's second half? It sure did. *Zweig Forecast* ranks in sixth place for performance over the last five years, again ahead of the market. *Zweig* is in first place for performance over the entire decade.

Obviously, not every newsletter that did as well as Zweig's during the first half of the decade did as well during the second. Skeptics no doubt will make much of the fact that the newsletter that was on top for performance over the first five years of the past decade (*The Prudent Speculator,* edited by Al Frank) gained just 20.6% over the second five years. But despite such individual examples of inconsistent performance, the important point is that the winners on average did much better than the losers.

Cases such as Al Frank's are useful, however, because they do illustrate that there are no guarantees in this business. This is also illustrated by the fact that those who beat the market over the first half of the decade lagged behind the market in the second half (the S&P 500 gained 121.6% on a total return basis over the last five years in contrast with their average gain of 72.6%). In other words, for even the best of advisers, the market as a whole remains a stiff competitor.

Which newsletters are likely to perform the best over the next five years? A total of six among those that I monitor have beaten the market over the past five years: In addition to Zweig's, these newsletters are *MPT Review* (edited by Louis Navellier); *OTC Insight* (James Collins); *California Technology Stock Letter* (Michael Murphy and Lisa Morganthaler); *Mutual Fund Strategist* (Charles Hooper) and *Princeton Portfolios* (edited by Michael Gianturco).

If past patterns persist into the future, these six newsletters on average will do much better over the next five years than the average of all the other newsletters that haven't beaten the market over this period. This doesn't mean that by following them you will automatically beat the market. It does mean that you will probably do better sticking with those with the best past records. ■

Mark Hulbert is editor of the Alexandria, Va.-based Hulbert Financial Digest. *His newest book is* The Hulbert Guide to Financial Newsletters *(Probus Publishing).*

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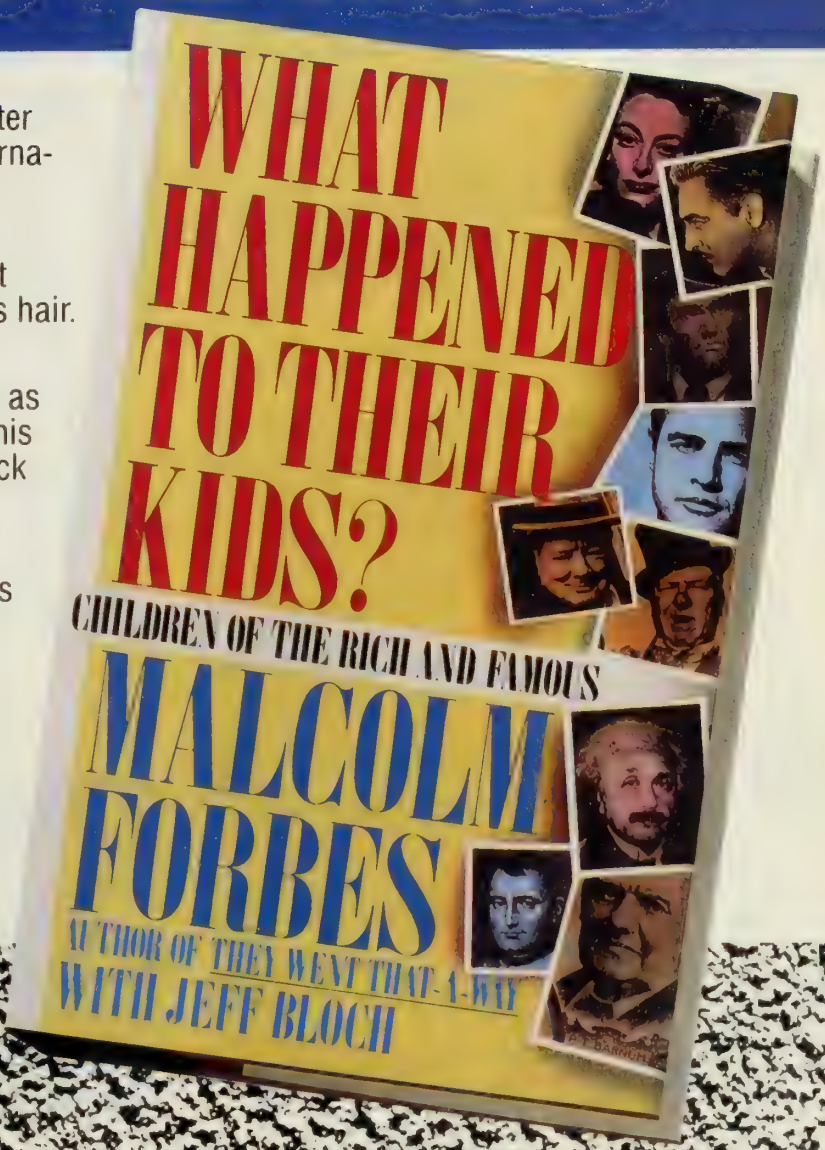

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Streetwalker

Edited by Thomas Jaffe

Keep on truckin'

In 1987 Emery Air Freight Corp. swallowed hapless Purolator Courier Corp. Emery, already sick, went on the critical list—and was itself swallowed by Consolidated Freightways, Inc. With the Emery deal, Consolidated's long-term debt rose from roughly 5% to nearly 50% of total capital.

Unfortunately, Lary Scott, Consolidated's chief executive, was unable to turn Emery around. Last year, with Emery hemorrhaging, Consolidated (sales, $3.8 billion) earned just 2 cents a share, versus $3 in 1988. Since April 1989 the stock has sunk from 37 to a recent 14⅞ on the Big Board. Indeed, not even the $150 million buyback of around 12% of the stock last October was able to pull the share price out of its tailspin.

Consolidated Freightways' problem
Will Ray O'Brien have the solution?

In June, in order to secure a new $860 million credit line, the company was forced to suspend its $1.06 annual dividend. On July 30 the board ousted Scott, replacing him with Chairman Raymond O'Brien, 68, who had previously held the job for 11 years.

Can O'Brien, who built Consolidated into a less-than-truckload trucking giant, be a hero a second time by now fixing Emery?

Here's where things stand: Last year the company charged more than $30 million against pretax income to shut Emery facilities, lay off employees and straighten out messed-up billing. Meanwhile, Consolidated has spent $75 million to modernize Emery's freight tracking system and to buy new pickup and delivery equipment. It has returned 11 leased aircraft to their lessors in recent months. Emery's operating losses declined from $70 million during the first quarter of 1990 to $30 million for the quarter ended June 30.

Even with the trucking solidly in the black, analyst David Magee of Atlanta's Robinson-Humphrey Co. thinks the company will lose 65 cents a share in 1990. But next year he looks for Emery's losses to shrink even further and for Consolidated to earn $1.80 a share. He thinks the stock can go as high as 20 over the next 12 months.

Last year Consolidated Freightways hired Wasserstein Perella & Co. as its financial adviser. Will the adviser recommend unloading Emery? Were that to happen, there's little doubt that investors would send Consolidated's stock up in a flash.

Paper values

Takeover rumors about paper producer Mead Corp. are making the rounds again. No wonder. The NYSE-listed stock—63.3 million shares outstanding—recently made a new 12-month low of 29¾. As pretty much the entire paper industry has been shredded by weak fundamentals, Mead's plight was hardly unexpected. But what makes the $4.6 billion (sales) company of particular interest to those who say it's undervalued are Mead's non-paper-related growth businesses: electronic publishing and color imaging. The reasoning goes that a so-called strategic buyer of Mead (another paper company) could sell these operations for rich prices and so help to pay down the cost of the overall acquisition.

So what are Mead's assets supposedly worth? Streetwalker has read estimates as high as $55 to $60 a share—which is around double the market, but which is also what some said Mead was worth in 1984. A few years later, when the stock ran to nearly 50 in 1988 on similar takeover talk (no deal materialized), a highly respected paper analyst came up with the very same $55 to $60 valuation for the company.

What does that analyst say today? "As industry fundamentals have turned down, it's hard to believe that asset valuations won't follow," he replies, adding that the stock's no bargain on earnings. It sells for 12 times the $2.50 a share he expects Mead to earn this year, versus a P/E of 10 or so for its group.

House for sale

One of the most frequently toute takeover targets of the last coup of years has been Lone Star Industrie Inc., the $338 million (sales) produc of cement and ready-mixed concret Under James Stewart, 68, its colorf chairman, the Stamford, Conn.-base company expanded rapidly in the la Seventies and early Eighties, and for time had good profits. But heavily l veraged Lone Star has run in the r for six of the last eight years and wi again in 1990. It has been selling a sets left and right to stay afloat, ar last year took a $258 million— $15.58 per share—aftertax restructu ing charge. Once a $1 billion revenu company, Lone Star is currently dow to maybe a quarter of that. The $1.9 dividend was omitted late last year.

Yet the stock last summer traded high as 37 on rumors of a deal. C note: Hawaii-based raider Har Weinberg, 82, who has amassed a estimated $800 million fortu through shrewd investing, owns 5 of Lone Star's 16.6 million Big Boa shares. Alas, when no bid emerged f the company from Weinberg or an one else, the stock sank and late traded at 11⅝.

Unlike a lot of executives, Ji

Jose Fernand

Lone Star's James Stewart
The house may be the better deal

Stewart has put his money where h mouth is; no one has suffered mo from these setbacks than Jim Stewa himself. Assuming the exercise of o tions, he owns roughly 2.14 milli shares, or over 10% of the sick stoc Nor is he selling: Stewart has put h much-publicized precast concre home on Miami's swanky Indi Creek Island up for sale. Asking pri $7.5 million (furnished) but probab negotiable.

The house may be fairly priced, but what about the stock—which sells at a 40% discount from book value? Given that the outlook for construction in some of Lone Star's key markets remains weak, a real turnaround could be a long time away.

Dead money

Is a defensive strategy based on buying big, sluggish companies a good idea? You know, concentrating on issues like Goodyear, Xerox and Sears. Streetwalker doesn't think so. The point of investing in equities, the way we see it, is to make money, not just to keep the money you have tied up in stocks. Why risk owning stocks if there aren't good gains in prospect?

One example of dead money Streetwalker has lately come across is Polaroid Corp.; recent NYSE price of 35¾, close to its 52-week low. It is a classic favorite of institutions, which own over 75% of the 52 million shares.

There are those who rationalize owning Polaroid because it has been developing a slew of new products such as Polahybrid and Hybrid IV film, a smaller instant camera named Joshua, and an electronic medical imaging system. Trouble is, earnings growth has slowed because film shipments are down. Meanwhile, advertising and marketing expenses are rising. Polaroid is expected to earn just $2.20 a share this year, up only 12% from 1989. Estimates for 1991, which not too long ago were running at $3 a share or more, have lately been reduced to around $2.60 a share.

Indeed, the most exciting thing that has happened at $1.9 billion (sales) Polaroid in recent years was its 1985 victory over Eastman Kodak in a patent infringement suit. But while the amount of the award the company will receive has yet to be disclosed by the court (estimates range from $1 billion to $3 billion, pretax), the potential windfall has long since been discounted in the share price.

Takeover prospects? Forget it. Polaroid has already beaten back Roy Disney's Shamrock Holdings. So what's left? Perhaps the fact that the company has been buying in its own shares, and has at least $150 million more to spend on this under its current stock repurchase plan. But then, buybacks are hardly unique.

If you're looking for a defensive investment, who needs Polaroid? What's wrong with six-month T bills at 7.8% or money market funds yielding about 7%?

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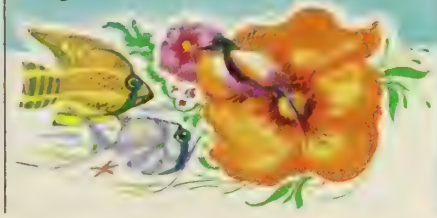

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NOT ALL NAZIS ARE LIVING IN SOUTH AMERICA.

They're living in places like Hayden Lake, Idaho, where an organization called the Aryan Nations maintains its 20-acre, whites-only compound.

A compound that is the site of an annual national congress for hate groups from around the country, and that has a church where the "minister" preaches that Jews are "children of Satan."

They're in places like Fallbrook, California, where an organization called the White Aryan Resistance is headquartered.

Headed by a former Grand Dragon of the Ku Klux Klan, the organization recruits high school students to become neo-Nazi "skinheads" and publishes a newspaper which recently ran this front-page headline: "Happy Birthday Uncle Adolf."

And they're in places like Costa Mesa, California, where an organization called the Institute for Historical Review is dedicated to promoting the incredible notion that the Holocaust never occurred.

It hosts conventions, and publishes articles and books which claim, for example, that *The Diary of Anne Frank* is a hoax, and that the photographs of concentration camps have been falsified.

Fortunately, there is an organization that is dedicated to working against these groups: The Anti-Defamation League.

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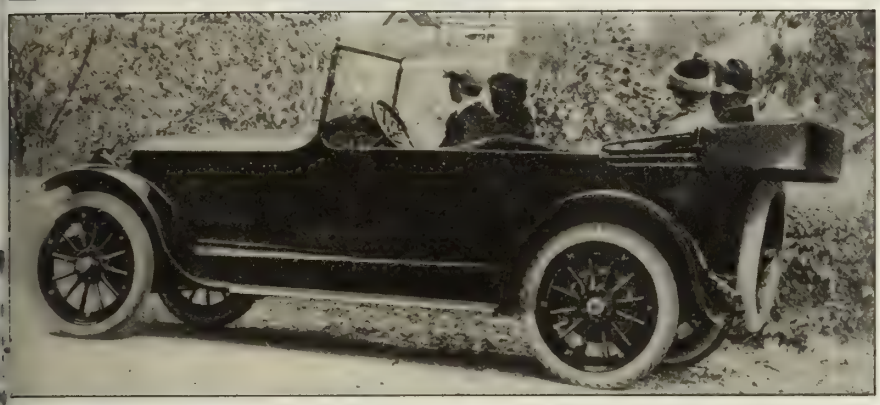
Flashbacks

Edited by Dero A. Saunders

"The more things change. . . ." Items from past issues of FORBES



The Liberty Six touring car of 1920

Seventy years ago in FORBES

(From the issue of August 21, 1920)

"**The first judgment** of the automobile from a commercial point of view—at least by bankers and businessmen ouside the industry—was that the auto was a rich man's toy, of which he might soon tire, and that, at best, its use would never extend beyond the 150,000 families whose incomes exceeded $10,000. That it would be seriously considered by the 200,000 families with incomes of from $5,000 to $10,000 was gravely doubted; and, at an early stage of its development, even the suggestion that the 400,000 households with incomes of from $3,000 to $5,000 could buy and support cars was 'conclusively proved to be impossible.' "

Orders are falling off. Prices are tumbling. Banks are applying the screws painfully. Railroads are neither bringing in enough raw materials nor taking away enough finished products, in many cases. A coal famine is never far off. Securities have shriveled in price. Failures are increasing. Strikes are still rife. Railway freight rates are about to be raised. Competition from foreign goods is increasing. Europe cables over fresh alarms to be served with breakfast every morning. And so forth and so on."

Sixty years ago

(From the issue of August 15, 1930)

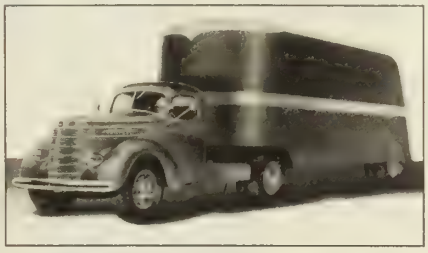
"**To the fellow sitting** in a broker's office . . . it is terribly important—sometimes a matter of life or death—whether Steel or Can or Motors or General Electric or Westinghouse or Radio jumps up a couple of points or drops two or three. Out in the open spaces, where the realities of life are wrestled with, where the vital things are the growing of the nation's food and the manufacturing of the things necessary for modern existence—out here the song of the ticker is drowned out by the song of the reaper, the rise and fall of the temperature are more important than the rise or fall of call money rates. . . ."

Fifty years ago

(From the issue of August 15, 1940)

"**A hint of** how defense spending will react on some segments of U.S. business comes from figures recently revealed by Bethlehem Steel Corp. On June 30, the company's unfilled orders stood at $288 million, nearly all for commercial business. Then came a flood of [defense] orders. . . . Result: By the end of July Bethlehem's unfilled orders skyrocketed to $500 million, 70% above the highest backlog previously reported."

"**With France** in Nazi hands, many see New York City becoming the Paris of the fashion world. Already some top-flight Paris designers have signed up with U.S. manufacturers, who envision a tremendous market for mass-made apparel bearing the labels of famous designers."



A half-century ago International Harvester was bit by the streamlining bug

Twenty-five years ago

(From the issue of August 15, 1965)

"**The stock market** nose-dived. That Monday, panicky investors dumped 3.9 million shares on the market; the next day, 4.8 million—more than on any day since the invasion of Poland. In just four days, the industrial averages dropped by nearly 10%. . . . That was the way it was 15 years and two months ago, in late June of 1950, when North Korea invaded South Korea with 60,000 troops spearheaded by over 100 Russian-built tanks."

The Beatles as they looked circa 1965

"**After a few days** in London, these conclusions: The Beatles are going as strong or stronger than ever; the pound is as weak or weaker than ever. More and more young men allow their hair to grow longer and longer; fewer and fewer executives exhibit firm faith in sterling, as the odds against devaluation grow shorter and shorter."—Malcolm Forbes

Ten years ago

(From the issue of August 18, 1980)

"**The big commercial** aircraft-engine market, which could amount to $25 billion in the 1980s, used to be one of those comfortable hegemonies enjoyed by a single U.S. company. . . Pratt & Whitney. . . .

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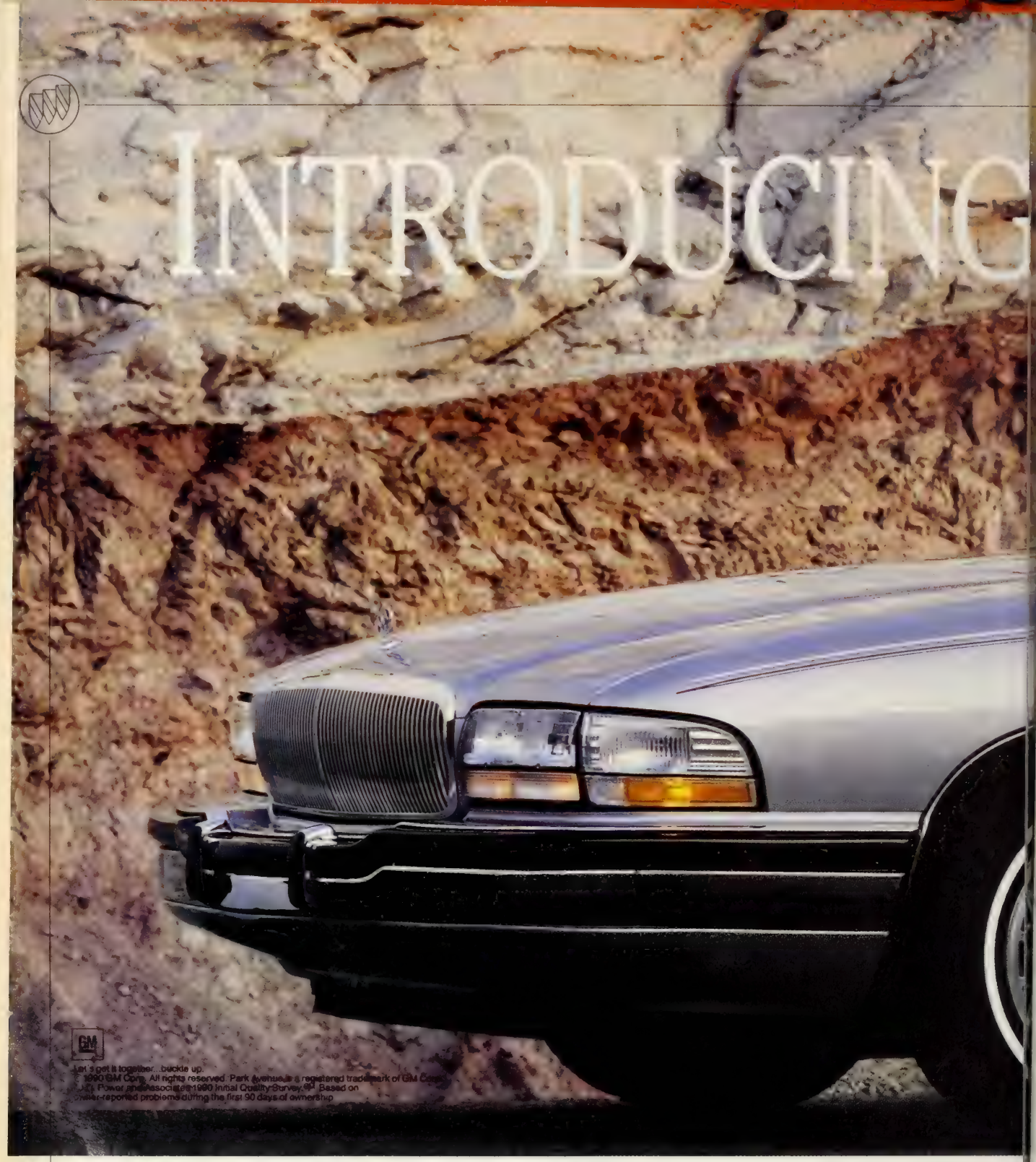
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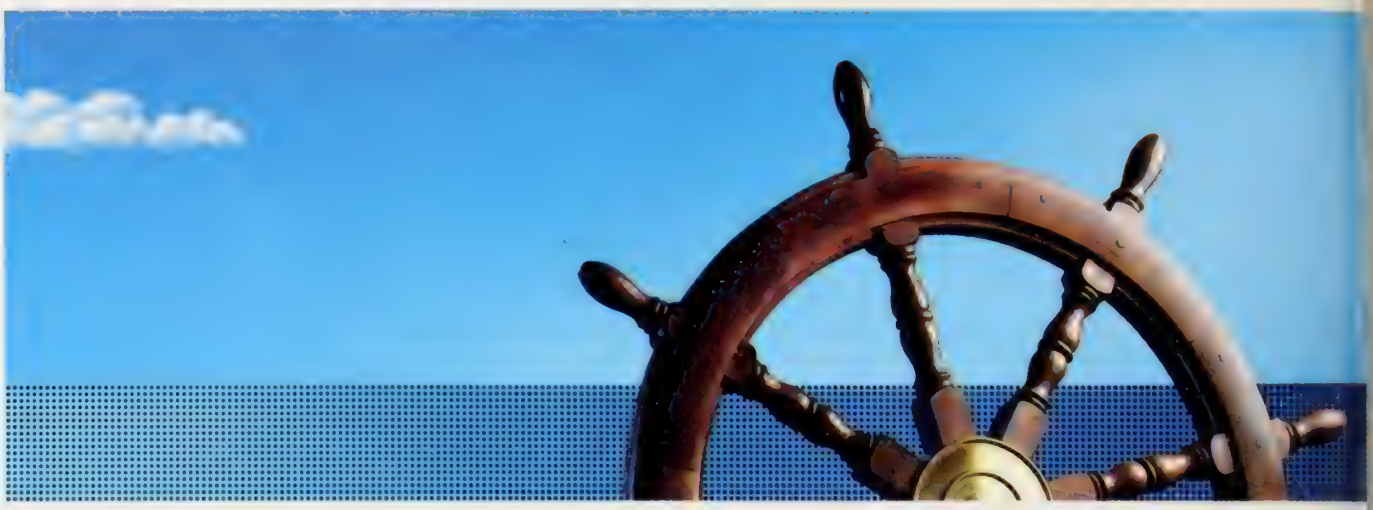

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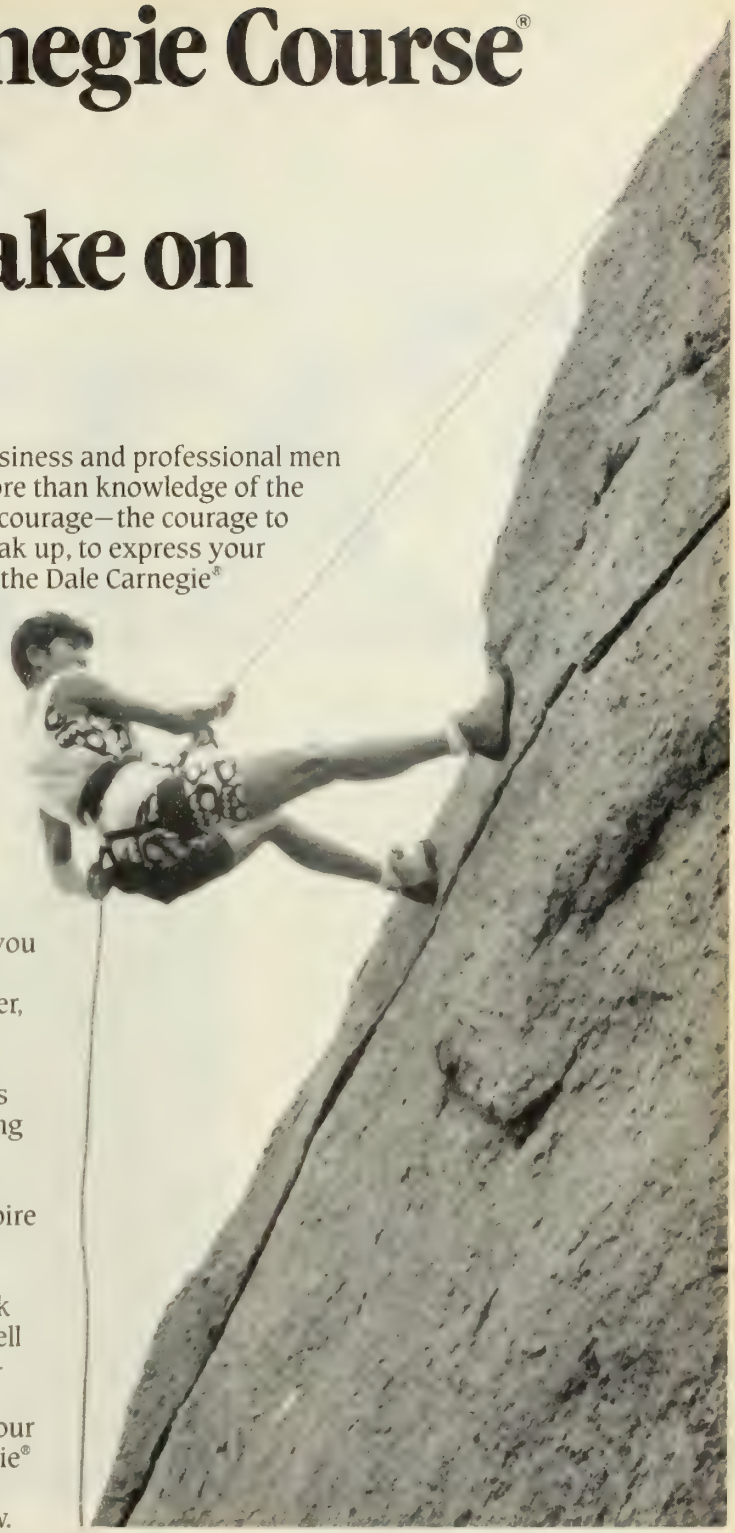

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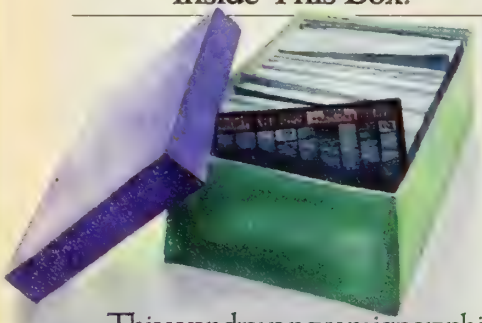

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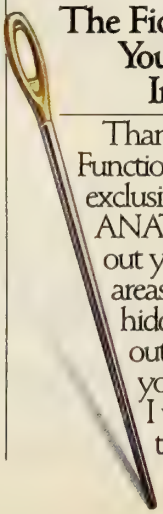

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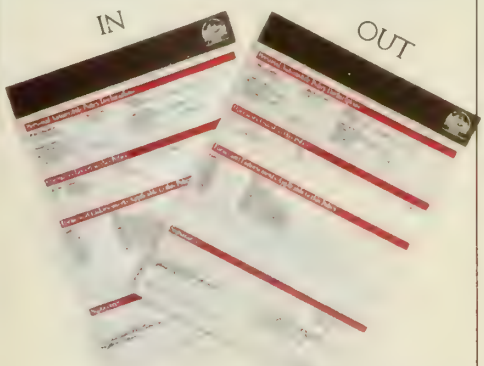

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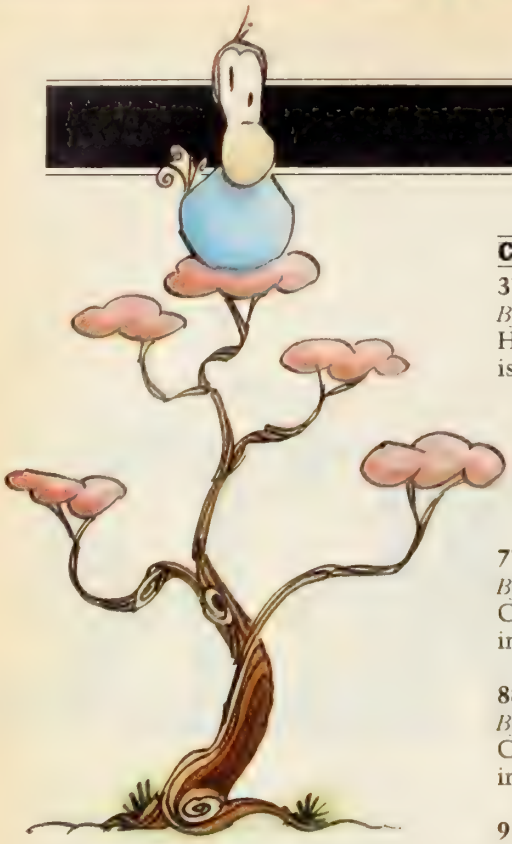

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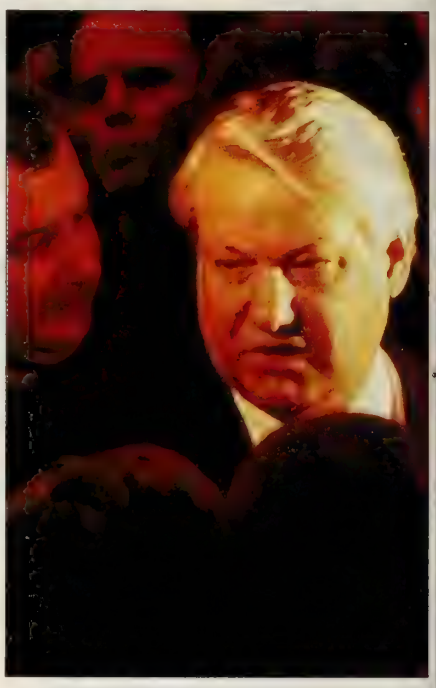

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Side Lines

Don't be a dodo . . .

. . . Many people are just that—dodos—when it comes to buying mutual funds. They look at one of the dozens of regularly published mutual fund surveys and pick a couple of funds that have the highest numbers. Then they put their chips on these. What are they doing, these people who think they are investing on the basis of the bottom line? They are assuming, unknowingly, that the future will be exactly like the past. But it seldom is. No one-year period, no five-year period, no ten-year period is exactly like the one that preceded it, and all that most mutual fund surveys tell you is how a fund did under a specific set of unduplicatable circumstances in the past.

That's why FORBES developed its unique A+ to F mutual fund ratings. We rate the funds not just on raw performance but on what we call consistency of performance—and we rate them separately in bull and bear markets. A fund can't score well in our ratings by being a fair-weather fund only. No matter how much distance it can cover in bull markets, it won't get onto our honor roll if it does poorly in bear markets.

Patrick McDonnell

But one buys a fund for income and/or appreciation. Why should one care how well it does in a bear market? Simple arithmetic. A fund that goes up 100% one year only to drop 50% the next leaves you back where you started—a net return of zero. But a fund that gains, say, 50% one year and loses 25% the following year has given you a compound annual return of 6%. The second fund did only half as well as the first one during the bull market but lost only half as much in the bear market. It ended up giving you a better return even though it lagged in the bull phase. A good fund should do well on the defensive as well as on the offensive.

The FORBES survey, properly used, will guide you to the funds that do well over the long pull while holding up in bear markets. Our funds survey won't tell you whether to be a bull or a bear in this market but it will show you how not to be a dodo.

The accompanying articles give specific advice on what to seek and what to avoid in mutual funds. The 19 statistical tables cover close to 1,800 funds, on which a mountain of data was amassed by Don Popp, Ann Anderson, Tina Russo McCarthy and John Chamberlain. Collection was only half the battle. The other half was translating the numbers into readable tables, an exercise in desktop publishing involving 322 computer programs. Programmers Carsten Thode and Dukhee Son made it all possible. The survey, distilling the experience we have gathered in 34 years of rating mutual funds, starts on page 121.

James W. Michaels
Editor

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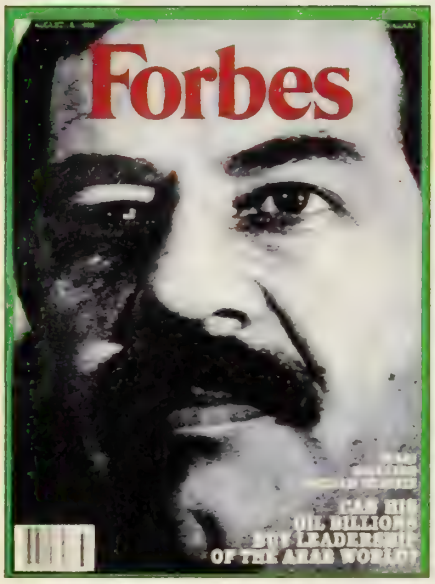
Follow-Through

Edited by Edward Giltenan



Early warning

Faithful FORBES readers would have been less surprised than most people at dictator Saddam Hussein's assault on defenseless Kuwait. Last December this magazine described Iraq's blundering steps toward economic recovery in the aftermath of its eight-year war with Iran and reported that Iraqi troops were massing near the Kuwait border. Our account added disapprovingly that U.S. Embassy officials in Baghdad did not seem to view Saddam as a threat to peace, and hoped to appease him into closer ties with the U.S.

But much earlier FORBES had taken Saddam's measure and described him as a gangster and a threat to the civilized world. After a visit to Iraq in 1980, now Managing Editor Lawrence Minard recognized Saddam's intentions to use Iraq's oil money to underwrite his vicious grab for power in the Arab world. At home, Hussein's methods, in Minard's perceptive view, were reminiscent of Chicago's gangland in the Twenties. "As he gained power and held it, so will Saddam Hussein probably lose it: in a shower of hot lead." The judgment still stands.—**Peter Fuhrman**

Bowing to reality

In April Charles Wohlstetter, the colorful chairman of Contel Corp., told FORBES about his ambitious plans to build his Atlanta-based telephone company into a major force in cellular. He had just bought the rights to service 6.1 million potential cellular phone subscribers from McCaw Cellular for $1.3 billion.

But in July everything changed. Wohlstetter announced plans to merge his $3.1 billion (sales) company into Stamford, Conn.-based GTE Corp. This merger created the nation's largest local telephone company—estimated revenues of $22 billion—but it dashed Wohlstetter's dreams of a giant independent Contel.

What changed his mind? In early July, to help pay for the cellular systems Contel bought from McCaw, Wohlstetter was hoping to raise $400 million through a stock offer. But with telephone stocks sinking, the potential value of Contel's proposed 14-million-share offering slipped significantly. GTE Chairman James (Rocky) Johnson, whose merger overtures had been rebuffed by Wohlstetter months earlier, came calling again. Instead of the anemic $27 a share Contel could get in the public offering, Johnson offered about $39 a share in a tax-free deal. Within a week, a tentative merger pact was announced.

Wohlstetter is vice chairman of the new company and runs its strategic planning and technology committee. But he doesn't deny that he would have preferred to remain independent. Says he, "Personally, I'd rather be king."—**Fleming Meeks**

Jeffrey MacMillan

Charles Wohlstetter's hopes for independence were dashed

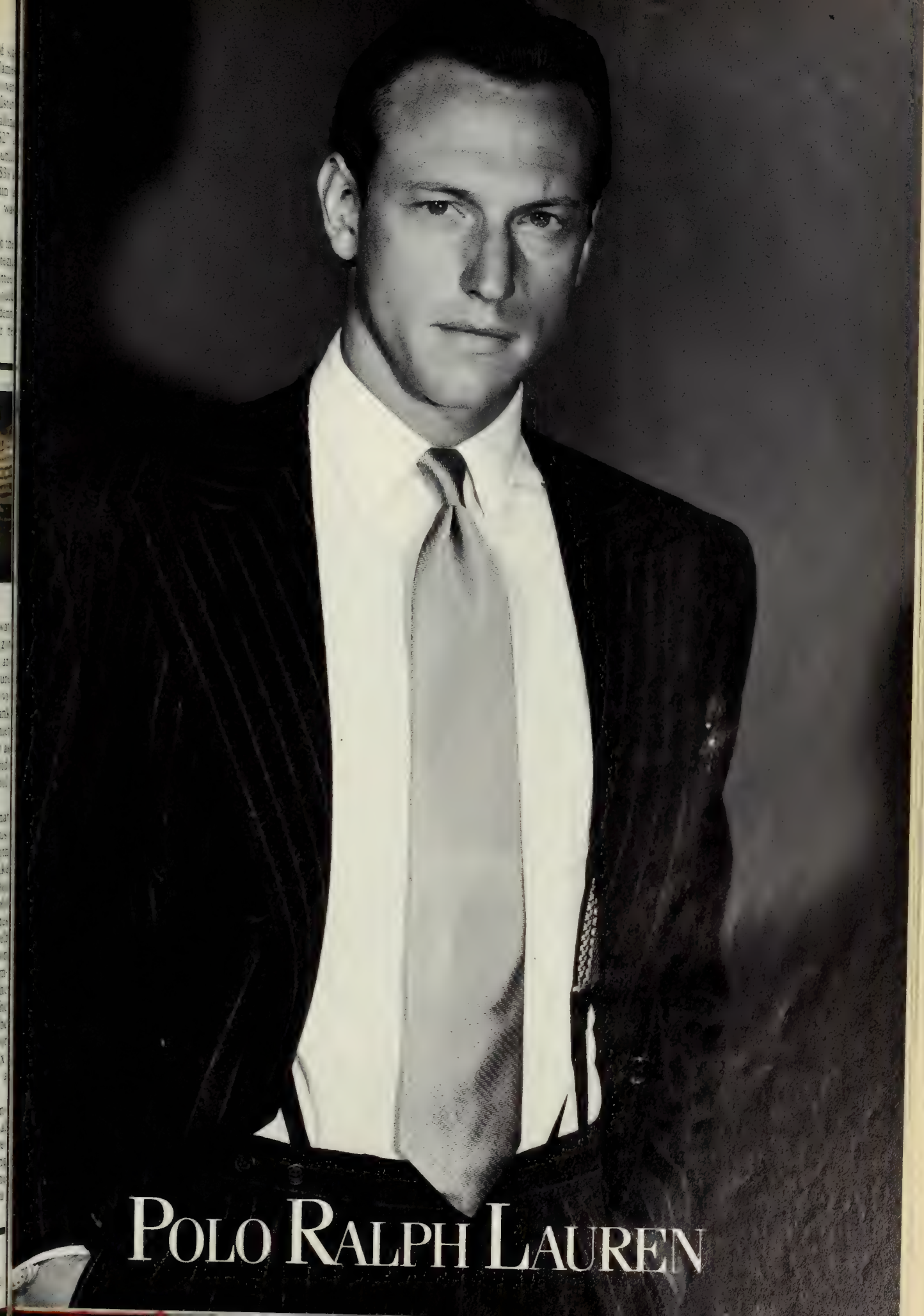
Lester Sloan/Woodfin Camp

Video boomerang

Handleman Co. got carried away with movie videos. FORBES got carried away with Handleman. An article in July 1989 said the future looked rosy for the Detroit-based videocassette distributor. Indeed, Frank Hennessey, then Handleman's chief executive, was quoted in the story as saying that people would collect videocassettes much the way they collect books.

So far, it hasn't worked out that way. Handleman loaded up its customers, primarily K mart stores, with cassettes of box office smashes like *Batman, Honey I Shrunk the Kids, Lethal Weapon 2, Who Framed Roger Rabbit* and *Bambi*. But when the cassettes didn't move, Handleman found itself stuck with an estimated $15 million of unsold tapes. The company's earnings fell 10%, to $37 million, for the year ended Apr. 28. Earnings for the current fiscal year are expected to be flat. The company's shares sell for about 11 on the New York Stock Exchange these days, down from 20 a year ago.

There's more trouble on the horizon. Wal-Mart, which in the last fiscal year accounted for 15% of Handleman's $717 million in sales, is buying its own video distribution outfit. The betting is that Wal-Mart will eventually give Handleman the boot.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ALFA ROMEO

Forbes Informer

Edited by Eric Schmuckler

Debi does Dallas

Debi Eyerman, a onetime national sales director with Mary Kay Cosmetics, was dropped by the company in October 1988 on the grounds that her drunken behavior "adversely affected the reputation" of the Dallas-based door-to-door company, according to court documents. She is suing.

Eyerman contends that others in the company displayed similar conduct and were not only retained but promoted. As examples, she gives Richard Rogers, Mary Kay Ash's son and company chairman, and Richard Bartlett, company president. Eyerman's lawyers are seeking to introduce testimony from an earlier lawsuit, which they say details Rogers' alleged drug use and association with a drug trafficker. In 1985 a business associate of Rogers' pleaded guilty to running drugs out of an airport facility Rogers owned. As for Bartlett, Eyerman pointed out that he had once pleaded guilty to a charge of driving while intoxicated.

Mary Kay's counsel, not surprisingly, tried to bar the evidence about the chairman's alleged drug-related activities, but the judge has ordered the company to respond. A Mary Kay spokesperson dismisses the allegations as nothing but a smokescreen.—**Lisa Gubernick**

Beating the bar

In St. Petersburg a paralegal named Daniel Schramek is fighting charges of forgery and notary fraud and faces up to 30 years behind bars. Schramek claims the charges are a setup by the Florida legal community in an effort to discredit him and put him out of business.

Schramek's thriving paralegal practice helps people of little means get divorces and draw up wills for much less than a lawyer would charge. He is also state director of HALT (Help Abolish Legal Tyranny), an organization that promotes consumer-friendly legal reforms.

An effort by the Florida bar last year to nail him for the unlicensed practice of law went nowhere. But Schramek was arrested at his home in April. The charges stem from a pro bono divorce case he handled: His client told prosecutors her signature on a routine document was forged by Schramek. Schramek says there's no reason he would forge that signature and says the Florida bar somehow pressured his client to level the charge.

Schramek has fired back with a federal antitrust suit against two judges and the state attorneys involved, alleging that they conspired against him. In the meantime, the notoriety has bolstered Schramek's paralegal business among clients who distrust lawyers and are fed up with hefty legal bills.

Clearinghouse for crooks

Want to check up on your financial planner? The Financial Planning Resource Foundation, a nonprofit based in Holland, Pa., offers an on-line databank on financial planning types who have had run-ins with the law. The number is 900-786-7237. Calls cost $2 a minute, up to $20.

The databank already has the dirt on 2,600 financial finaglers. The information includes regulatory actions, yanked licenses, lawsuits and so forth. Much of this information is available for free from your friendly state securities regulators, but this is intended to be a more comprehensive listing. Foundation President William Knegendorf says the databank is adding about 100 names a day, or until "the keypunch operator gets burned out." There's already a backlog of 500 names to add to the dishonor roll. Knegendorf initially figured his list would encompass 10,000 names at most, but now he expects to reach that figure in three years, easy.

Steve Goldstein

The Beverly Hilton
Is Merv selling out or moving in?

Is Merv selling?

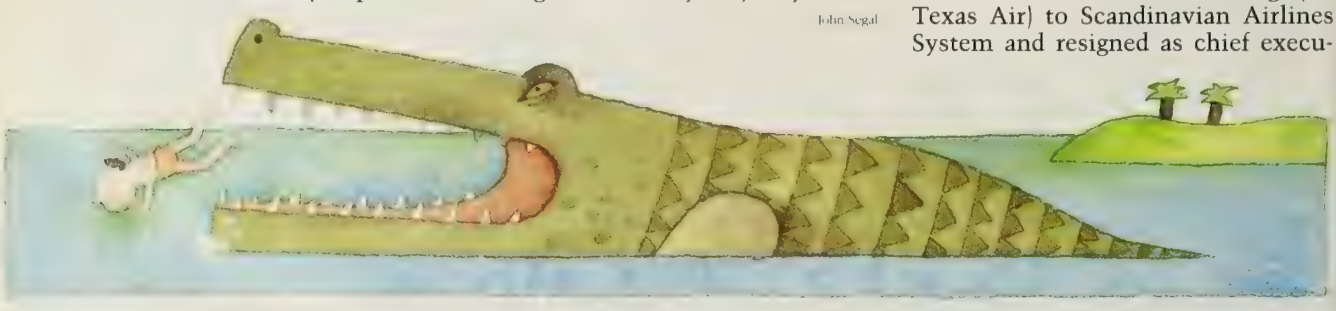
The word in real estate circles is that talk show host and casino bankrupter Merv Griffin has quietly put the Beverly Hilton on the block. Griffin bought the 592-room hotel only three years ago for $100 million, or about $170,000 per room, reportedly putting down $20 million and borrowing the rest. Another rumor making the rounds on the Coast is that Griffin wants to sell his Beverly Hills manse and move into the penthouse at the Hilton. If the rumors seem to contradict each other, so be it; we're just reporting what we hear. Merv's people say the hotel is not for sale, but he just might sell the house.

No mystery about why the rumors are flying. Resorts International, which Griffin led into Chapter 11, is expected to gain approval for its reorganization plan any day now. Griffin is required to contribute $26 million of equity to the deal, $15 million of it due a few weeks after the judge signs off. That's a lot of hard coin, even for a reported centimillionaire.

Why did Lorenzo bail out?

The recent surprise move by Frank Lorenzo, who sold his personal stake in Continental Airlines Holdings (né Texas Air) to Scandinavian Airlines System and resigned as chief execu-

John Segal



tive, was good news to the stock market. Continental common rose 39%, to 6¼, the day of the announcement.

Why did Lorenzo pick this moment to pull his rip cord? Could be he was getting more and more worried about the enormous liability Continental faces for the pensions of its Eastern Air Lines subsidiary, a liability that threatens to wipe out Continental shareholders. Could be the deteriorating condition of all the airlines, given a soft market and Saddam-induced increases in fuel prices. Whatever the reason, Lorenzo has proved himself a master of selling before bad news and buying before good. In late 1986 and early 1987, with the stock rising, he sold 86% of his directly owned shares for $11.3 million, at an average price of $33.74. After that, the shares fell and never recovered. This spring he picked up 22,500 shares at an average of $5.50 each, selling them to SAS early last month for nearly three times that.—**William P. Barrett**

Former airline boss Frank Lorenzo
A master of stock market timing.

Robert Maass/The Picture Porters

No load notion

Jack White, president of the San Diego-based discount brokerage that bears his name, has a bright idea for investors to dodge the sales charge on load funds held through a brokerage house. White is trying to put together a secondary market for trading in load funds. It would work like this: If you wanted to buy one of the Templeton funds, which charge an 8.5% load, you would be matched up with someone who wanted to sell that fund. White would pocket a commission each way, but, at his discount rates, it would be a fraction of the regular charge. The theory isn't working in practice because White doesn't yet have the customer base to keep the trades flowing. Given time, though, it might catch on.—**Christopher Palmeri**

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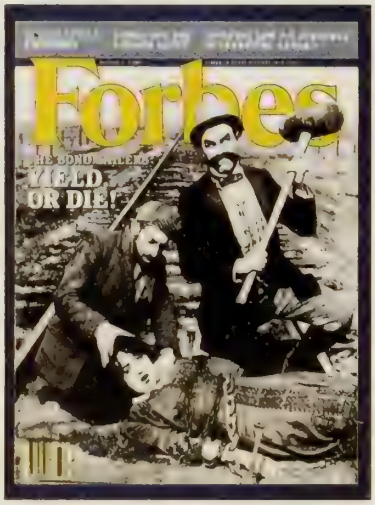
Readers Say

Woman in chains



SIR: At a time when violence directed against women is on the rise, this August 6 cover is irresponsible. Surely a different picture could have been found which had more than just a tenuous connection to an article about bondmailers.
—T. Larson
Broomfield, Colo

The ultimate solution

SIR: Re "The ultimate weapon?" *(July 9).* The Soviets need dollars. The Soviets have a lot of advanced submarines. We are spending a lot of dollars to build submarines to keep up with the Soviets. Why not buy submarines from the Soviets for dollars, then fill them with cement and sink them? We could cut $20 billion off our submarine program and be in the same relative position.
—Daniel L. Milligan
Springfield, Ill.

Stating the obvious

SIR: Re your quotation from "It Was on Fire When I Lay Down on It" *(Other Comments, June 25).* Robert Fulghum states, "The moon is moving away from the earth because gravity is decreasing. . . . " The moon does indeed move a few inches away from the earth every year, but it is not because of any diminution of the gravitational force. It is due to the principle of conservation of angular momentum. Because the earth has a molten core, friction between the spinning earth and its semiliquid center causes ou planet's rotation to slow down ever s slightly, resulting in a loss of angula momentum. The distance betwee the earth and the orbiting moon in creases slightly to offset this decrease and the angular momentum of th earth-moon system is conserved.

Such simplistic errors as "gravity i decreasing" appear all too frequentl in the media.
—Peter Erickson
Proctorsville, Vt.

Inner-city spending

SIR: Re Fact and Comment *(July 9* Reducing the number of taxpayers i the inner cities as implied by th Kemp proposals would be a prescrip tion for more out-of-control federa spending and additional costly feder ally mandated business expenditures
—Ronald L. Promboin
Chicago, Ill.

Wrong Federalist

SIR: Thanks for the quote about th need for a government that can con trol the governed yet also control it self *(Thoughts on the Business of Life Aug. 6).* The thought (from Federalis Paper Number 51) should have bee attributed to James Madison rathe than Alexander Hamilton.
—Dan Stichman
Lancaster, Calif.

Down with patronage

SIR: Re your Fact and Comment *(Au 6).* Do you really believe patronag people like Samuel Pierce improve the effectiveness of the Reagan Ac ministration? Voters alone can n longer control the sleaze element i politics because of the way incum bents have entrenched themselve with the distorted distribution c electoral funds. We need all the hel we can get from the courts.
—J. Curtis Coombs
Colorado Springs, Colo.

Who cleans up?

SIR: Re your July 9 Fact and Con ment. The issue of environmenta cleanup liability deserves attentio However, I am concerned that Han

Greenberg's proposal to create a new fund is a "home run" for the insurance industry—not for the environment. Coverage for environmental actions is clearly within the general liability provisions of existing insurance policies. The proposed fund would shift to future policyholders the obligations of insurance companies to indemnify past policyholders.
—Robert H. Malott
Chairman
FMC Corp.
Chicago, Ill.

Plan to lose

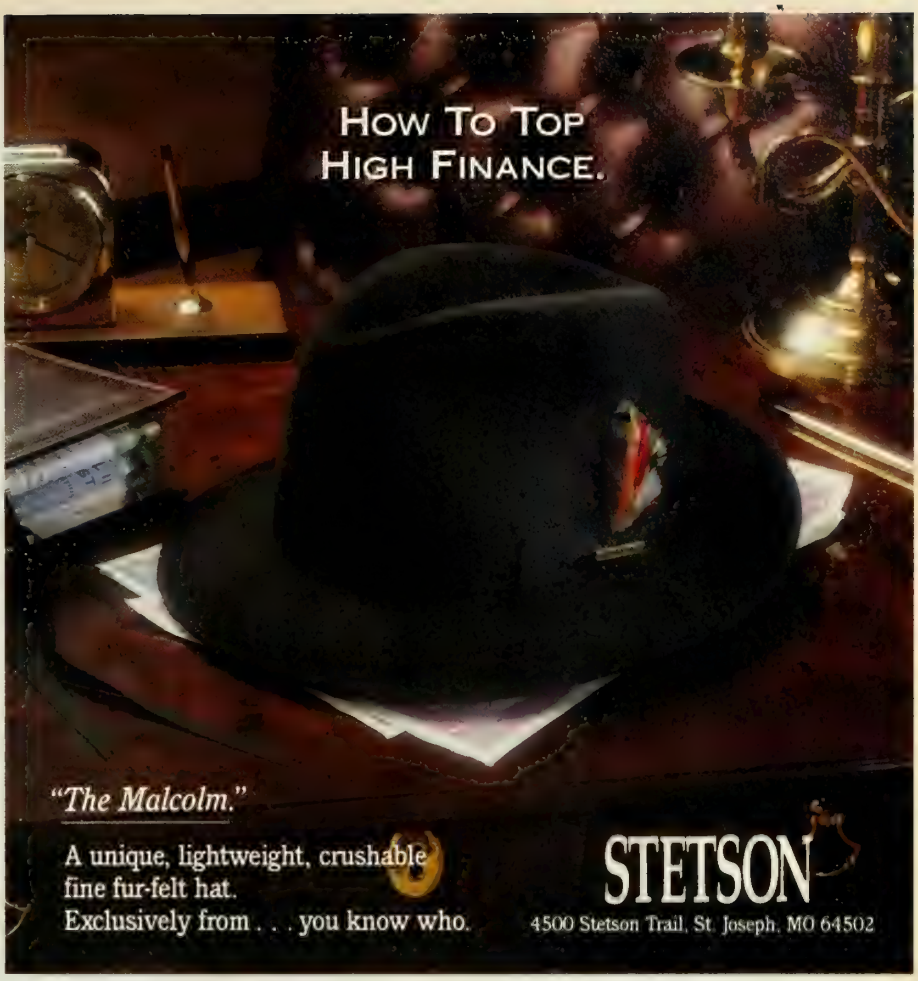
SIR: Your article about Venita VanCaspel ("Inviting the cat to take care of the canaries," *June 25*) was right on target. My friend was devoured by her personal financial planning to the tune of $1 million in losses. To say she made a difference in his life is an understatement.
—Alicia P. Owen
San Antonio, Tex.

Duty bound

SIR: Public pension funds are not as subject to political pressures as you suggest *(Fact and Comment, June 25)*. They are governed by the strictest standard known to our legal system, fiduciary duty. Most efforts to dilute that duty have come from corporate managers, hardly ever from those hoping to pursue a political initiative. The substantive limitations on the shareholder agenda and the fiduciary standard make the institutional investors ideal watchdogs for watching management.
—Nell Minow
General Counsel
Institutional Shareholder Services, Inc.
Washington, D.C.

Car style

SIR: Alan Reynolds' column *(July 9)* groups auto companies by the country where facilities and subcontractors are located to show the strength of the U.S. automotive industry. The industry is more usefully divided along philosophical lines. One style is characterized by long-term planning, product quality, good employee relations and good service. The other is characterized by poor and combative employee relations, short-term profits and a low emphasis on quality.
Jeffery B. Cross
Phoenix, Ariz.



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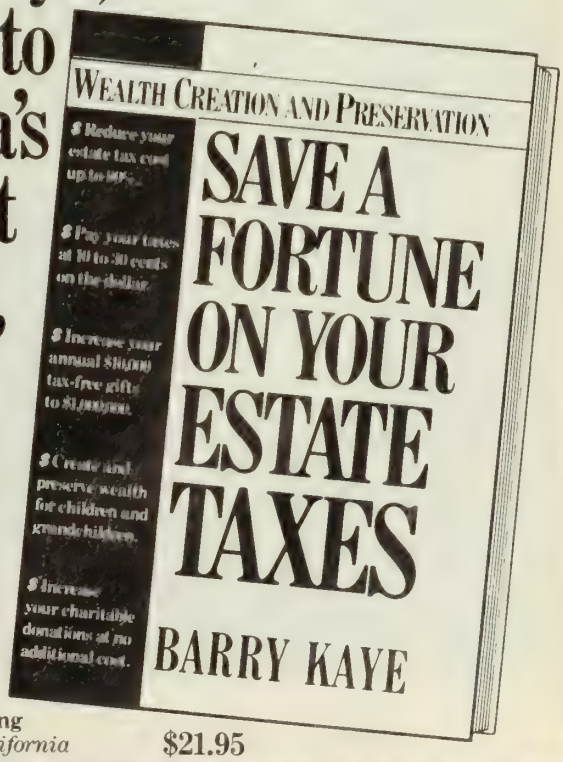

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Fact and Comment

By Malcolm S. Forbes Jr., Editor-in-Chief

SADDAM HUSSEIN'S ONLY HOPE FOR SALVATION

s a long, drawn-out stalemate with the U.S.; we might then ose patience and start making concessions because of the ıostages. We shouldn't let this thug dictate the terms of the howdown. We should seriously consider massive air trikes against his air force and particularly his poison-hemical-laden missiles. If he starts sending troops to ordan as a means of provoking Israel, we should air attack hose columns immediately in the name of defending ordan's integrity. Saddam Hussein then wouldn't be able to portray his aggression as a crusade against Jerusalem.

We should broadcast messages to Iraqi army and police officers that they will suffer severely for any harm that befalls U.S. or other nationals in their midst. We should remind them of our war criminal trials in Germany and Japan after World War II and that a number of those convicted went to the gallows. They might think twice about jeopardizing their necks as they realize that this is a showdown they are doomed to lose.

A REAL FRIEND

The Persian Gulf provides a vivid reminder of the impor-ance of Turkey as an ally. This NATO member borders Greece, the Soviet Union, Bulgaria, yria, Iran and Iraq. Only Turkish coop-ration will make the embargo against raq work. Turkey has been short-hanged over the years in both military nd economic aid. Its application to oin the European Community has een sidetracked.

MSF and MSF Jr. with Turkish leader Ozal at Forbes' offices, 1985

The U.S. should start treating Tur-ey with the respect it deserves, and urope should welcome it to the fold. fter all, this country provides an extraordinarily helpful nodel for the vital Middle East. Turkey is Moslem but secular; no Ayatollah politics, here. Ankara has made impressive progress since 1980 when the army briefly seized power because Turkey was in the midst of a raging war against terrorists lavishly financed by the Kremlin via Bulgaria. When order was restored, the troops went back to the barracks.

Feisty President Turgut Ozal is pro-Western, pro-free market. He's proven his courage again in joining us against Iraq, which is one of Turkey's major trading partners. By working with Turkey, we can show still politically backward Mideast nations the true path to take politically and economically.

HOW LONG WILL CONGRESS REMEMBER?

The Iraq crisis underscores the need for us to maintain ur military muscle, not as much as before the Cold War resumably ended, but far more than Congress seems to ink. That Moscow is not stirring up trouble or taking dvantage of trouble spots doesn't mean the world is safe and secure. Conflicts among and within countries will continue. Saddam Hussein-like thugs will try to shake down others. Like a good lawn, security and peaceful commerce among nations don't just happen, they must be cultivated and maintained, and the U.S. is the only

country capable of doing that.

The world has united in condemning Iraq, but this unity would not have taken place without the vigorous lead of the U.S. And our lead would not have been effective without military power. In recent weeks Congress mutilated our defense program, slashing the Strategic Defense Initiative, the MX missile and other programs.

A growing number of countries in coming years will be able to build ballistic missiles that can reach the U.S. Building the Bomb is becoming easier. Thus our need for an effective defense against incoming missiles is greate than ever. A Qaddafi or a Hussein or a similar despo would be less inhibited about launching a rocket to th U.S. than would the Kremlin.

Even after Iraq invaded Kuwait, the Senate passed a amendment barring the Pentagon from doing research o developing small rockets that could destroy incomin missiles. The President will have his hands full keepin Congress responsible on defense. The isolationist strea there grows stronger.

WHAT IS AMAZING

about the rise in the price of oil is how *little* it rose.

With the possibility that almost half the globe's petroleum could come off the market, the spot price peak of $28 is extraordinarily small. Remember, until 1985, oil routinely sold above $30 a barrel. And it quadrupled after th Arab-Israeli War of 1973.

When this crisis ends, oil prices will rapidly fall to range of $15 to $20.

EVERYONE AN ARTIST

Sony's new Sketch Pad is a toy parents will love. Kids can now draw and paint electronically. The gizmo attaches to the television set and you instantly see your handiwork. The colors are dazzling. It's an ideal outlet for kids' artistic side—no water, no paints, no mess. Grown-ups also will find it hard to resist.

The only thing Sony needs now is a printer that would reproduce on paper what you produce on the TV, although you are able to record these "masterpieces" on videotape.

STARK RACIST

California Congressman Pete Stark, who is white, recently said of Health & Human Services Secretary Louis Sullivan, "[He] comes as close to being a disgrace to his profession and his race as anybody I have seen in the Cabinet." Sullivan opposes Stark's pet ideas on health care and abortion. One would have thought this patronizing attitude of an individual black's being a credit or discredit to his race would have gone out decades ago. What makes Stark think that blacks shoul have monolithic views on issues The Secretary's response wa pointed and apt: "I don't live o Pete Stark's plantation."

Stark: *discredit to Congress*

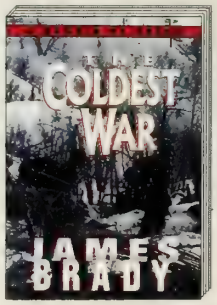
Colburn, Photoreporters

Sullivan: *forceful thinker*

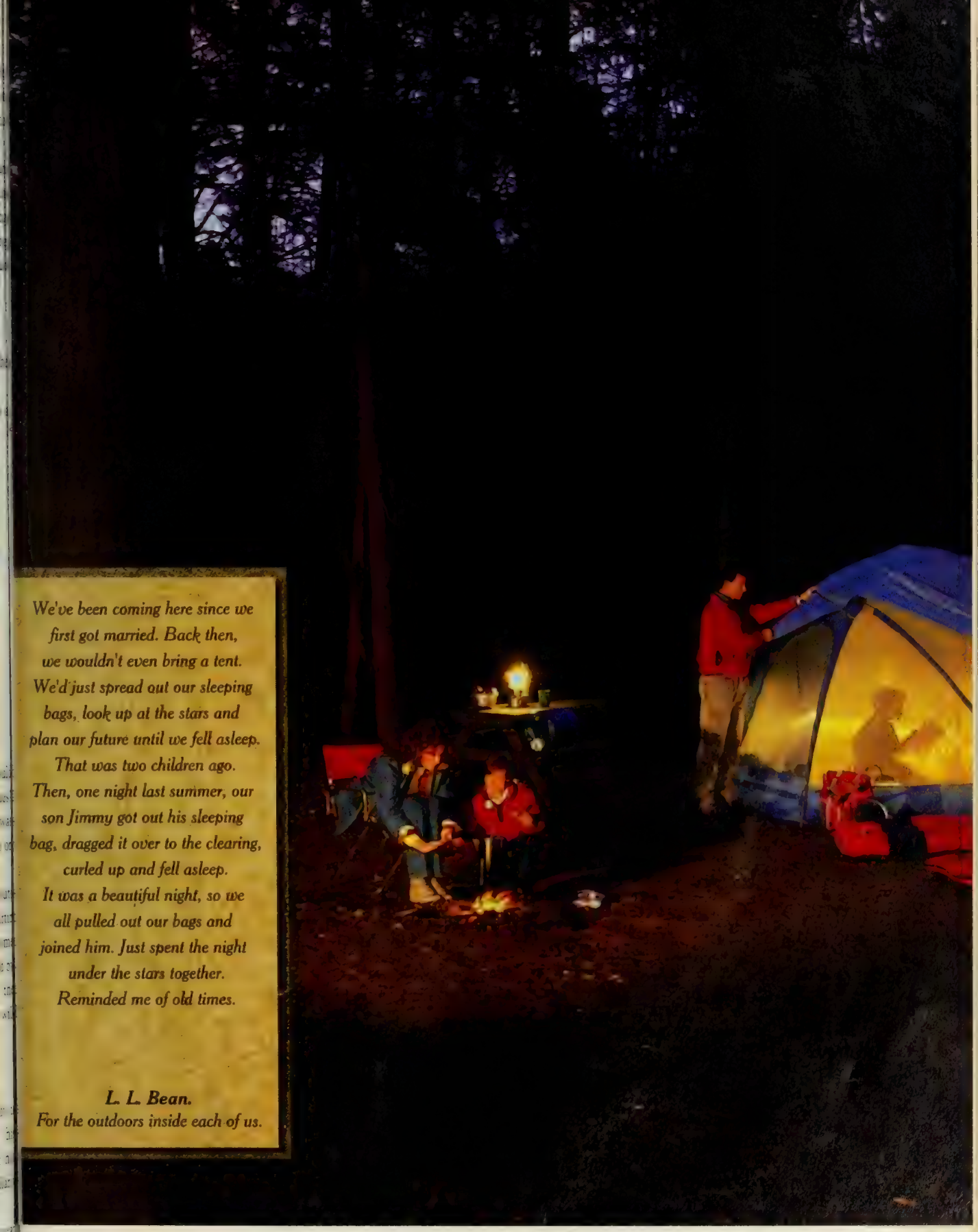
As long as loudmouthed lout like Stark hold high office, Marti Luther King Jr.'s dream that som day people "will not be judged b the color of their skin but by th content of their character" wil not be realized.

FORGOTTEN WAR REMEMBERED

With simple, straightforward language, James Brady's *The Coldest War* (Orion Books, $19.95) recreates what it was like for an American (in this case, a new lieutenant in the legendary First Marine Division) fighting in Korea during the conflict's "static" period. (There was nasty combat, but, as in World War I, the lines didn't much change.) What makes this book compelling and credible is its lack of embellishment, bravado, overdescription or big-think philosophizing about war. Brady i candid, but doesn't make a point of hi candor. His cool style makes this first ho war of the Cold War come to life, particularl during Korea's Russian-like winter.



Subsequent to his service in the Korea conflict, Brady went on to a dazzling career a writer, editor, novelist, critic and TV com mentator. But this short, powerful memoi will be what he is most remembered for.



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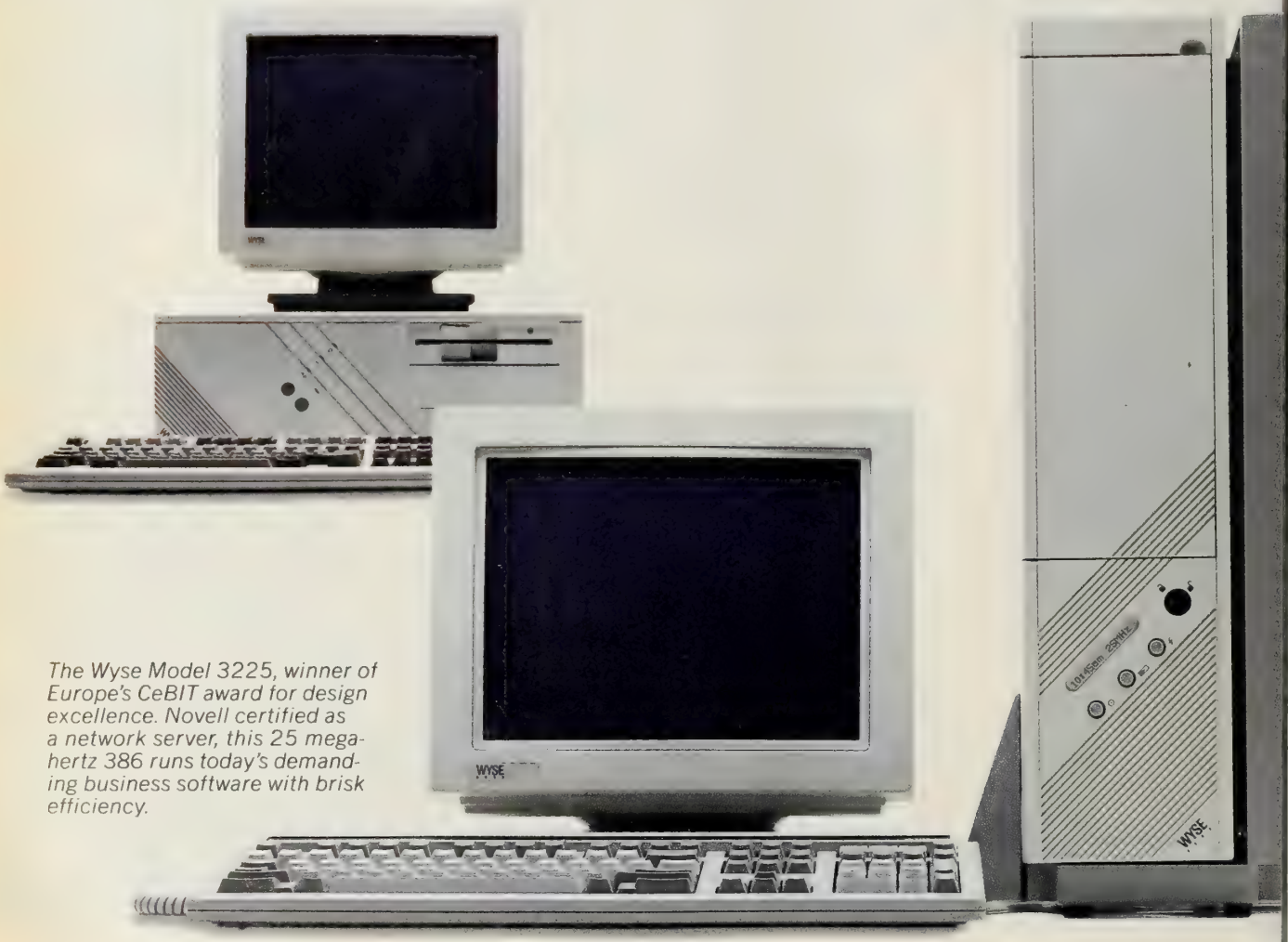

The Wyse Model 3225, winner of Europe's CeBIT award for design excellence. Novell certified as a network server, this 25 megahertz 386 runs today's demanding business software with brisk efficiency.

[1]Source: IDC 1989 Terminal Census

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he world's largest computer exposition is eBIT, held in Hannover, Germany. It is the remier international showcase for the ıtest and finest computer products from round the world. And in 1990, the Euro-ean computer experts who judge at CeBIT warded their top **THE WORLD IS GETTING WYSE.** onor for design excellence to a Wyse ersonal computer, our Model 3225. everal PC brands are better known than 'yse to the world at large. But it isn't par-cularly surprising that one of ours was elected for this prestigious award. Wyse esign expertise has been winning a fol-wing among computer professionals for early a decade. And today, we have an stalled base of over 3,000,000 terminals nd personal computers. Our design goal ways is to add value. The ingenious design our terminals, for example, gives them ore features, styling and ergonomics an the competition. For less money. As result, Wyse is the largest independent aker of computer terminals! Similarly, ır new family of UNIX multiprocessor stems offers better price/performance tios than any similar line. Plus the invest-ent protection of expandability. You'll nd such value reflected throughout our mily of PCs, as well. All are extensions the design philosophy and capability onored by the CeBIT judges. To learn ore about their winning ways, just call 800-438-9973.

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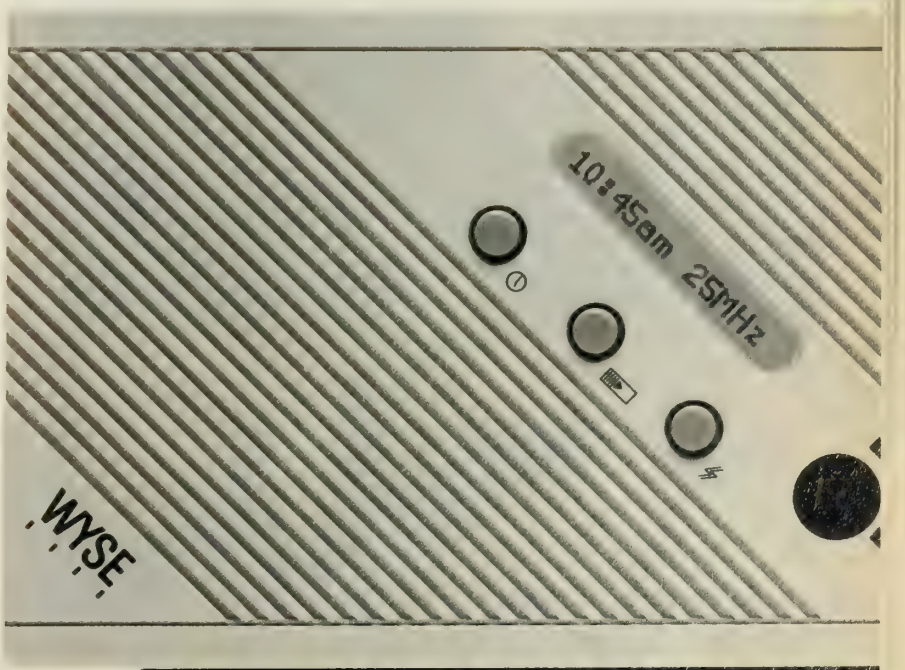

Other Comments

He's No Nebuchadnezzar

Clues to Saddam Hussein's ambition are everywhere, but they are clearest in the ancient city of Babylon. There Saddam has ordered a multimillion-dollar restoration project and hopes to someday recreate the city's hanging gardens, once one of the world's seven wonders. Ancient inscriptions hailing Nebuchadnezzar as "King of Babylon from far sea to far sea" (an area that covers the modern states of Iraq, Kuwait, Syria, Jordan and Israel) lie beside new ones boasting: "Rebuilt in the era of Saddam Hussein." The overall effect, however, falls short of Saddam's grand vision. "Disneyland without Mickey Mouse," snorted a Western archeologist.

—*Newsweek*

Man Can't Live by Oil Alone

U.S. officials said that cutting off food exports to Iraq may prove an effective means of putting pressure on Mr. Hussein. The U.S. and Europe provide most of Iraq's imported foodstuffs, and they have cut off such shipments. Iraq's allies don't produce enough food for their own people, so should such a food embargo hold up, U.S. estimates indicate that Iraqi citizens could begin experiencing shortages of basic food commodities, such as bread and rice, as early as October. "It looks like October-November would be a difficult time; there will start being some pressures," said John Parker, an analyst for the U.S. Agriculture Department. And judging from their apparent lack of preparation for a possible cut-off of imports, he added, "I don't think they realized how dependent they were."

—John Fialka and Gerald Seib, *Wall Street Journal*

The Freedom To Think

Dr. Louis Sullivan's [Secretary of Health and Human Services] offense is independent thinking. He has recently been giving thoughtful speeches on health and social issues that don't comport with the liberal stereotype of how a black public official should act. Unlike many black leaders [for instance], he's bravely attacked black nationalist Louis Farrakhan for "anti-Semitic rhetoric" that is "shameful, outrageous and stupid."

—*Wall Street Journal* editorial

* * *

Rep. Pete Stark should not have raised the question of Sullivan's race because it is irrelevant and, in this context, insulting. The notion that skin color, religion, ethnic origin or sex obliges a person to hold particular ideas is as hurtful as any other racist idea.

—*Los Angeles Times*

* * *

"Congressman Stark thinks I am not a 'good Negro.' Well, let me tell all the Pete Starks wherever they are, this is not the 1890s, this is the 1990s. And none of us can afford to have an more 'good Negroes.' No, this is time for independent thinking fo blacks and for all minorities."

—Louis Sullivan, Secretary Health & Human Services, i the *Washington Pos*

Drawing by W. Miller, © 1989 The New Yorker Magazine, Inc.

Smart Wife

Justice William J. Brennan believe the Constitution begins at home, in cluding his own home. When his wif teases him about what she consider his overly liberal views and tell friends that she votes Republican, Jus tice Brennan responds that he strongl defends her First Amendment rights.

—Martin Tolchin, *New York Time*

To put on the garment of legitimacy is the first aim of every coup.

—Barbara Tuchman, *A Distant Mirro*

Long-Distance Expertise

Several days after the [1986 U.S bombing of Libya], we had the fligh leaders from the Air Force and the Nav flown to the Pentagon for debriefing The Air Force Flight Leader told us tha because of the requirement to main tain radio silence for the entire missio out of England (14 hours en route th Mediterranean), he had no way of tel ing if the mission would succeed. H made his final turn to begin his attac route into Libya, when suddenly off t his left he saw a Navy carrier-base aircraft fire a Harm missile to suppres the Libyan radar and missile sites. Fo the first time he felt very confident i the success of the mission. The spli second timing of these two super forces, staged from thousands of mile apart, was absolutely essential to th overall success of the action. . . .

After a short time, a great number o people, including many government were delighted that someone was abl to teach Qaddafi a lesson; and his r sulting silence and, indeed, virtual di appearance indicated very clearly tha the lesson had been taught and learne

—*Fighting for Peac*
by Caspar W. Weinberg

Truth in Advertising

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—"Jab's Gab
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Commentary
on Events at Home and Abroad

By Caspar W. Weinberger, Publisher

THE MILITARY OPTION

Every discussion—whether on TV, radio or in the press—about Iraq and Kuwait inevitably comes to the question of the "military option." Rarely does anyone ask the most crucial question: What is the cost to the U.S. and the world of not considering, and possibly not using, any and all options open to us, including a military option?

Of course, before we have to use the military force we are deploying, we can hope the economic sanctions enacted by the United Nations will work. This could be very effective, although economic boycotts rarely are.

Iraq's civilian economy cannot absorb the million-man military Saddam Hussein built up with the billions given him by Kuwait, along with Saudi funds, during the Iran war (no kind deed goes unpunished!). Iraq needs to rebuild its shattered infrastructure and to keep arms and spare parts flowing to its military. In short, it needs to import many things. If all the nations that trade with Iraq maintain the boycott, Iraq will be hurt.

The Saratoga: *headed for embargo duty*

Iraq will be hurt even more by 1) a naval blockade closing the Persian Gulf at the Strait of Hormuz, 2) closing the oil pipeline that crosses Turkey and the al-Mu'ajjlis pipeline across Saudi Arabia, and 3) blocking the Red Sea and eastern Mediterranean outlets from these pipelines. The pain caused by such events may even convince the Iraqis that they cannot live with millions of barrels of unsold oil and little else.

Of course, Iraq may well invade Saudi Arabia. Then the military option would have to be used, including air strikes, naval bombardments and, probably, allied land forces.

All this could have a heavy cost. But what is the cost of not being willing to exercise that military option?

Saddam Hussein is a cold, calculating, ruthless man of unbounded ambitions unhampered by the restraints that govern civilized behavior. He has a total dictatorship. I know from a high authority that Hussein has asked one who already bears the title how he should go about becoming a king. He was told, "It helps if your father was one."

He now controls about 20% of the world's known oil reserves, and he is immune to world opinion. His use of poison gas—his military possesses a good-size stock—against Kurdish villagers is thoroughly documented.

There is a story, also well authenticated, that illustrates what we are dealing with. In a meeting with his generals during the Iran-Iraq war, Hussein criticized one of them who he felt had not held his position against Iranian attacks. In the midst of the general's explanations, Saddam Hussein pulled out his revolver and shot the officer dead.

What would stop such a man? Only the knowledge that he faced strong forces determined not to let him have his way. Iraq's army is large but was never able to do more than hold off Iran. It was our successful protection of Kuwait's tankers that convinced the Iranians they could not win, and they gave up.

The comparison with Hitler is instructive. No one tried to stop Hitler until it required the mightiest armies ever assembled, although he could have been stopped dead and deposed when he first entered the Rhineland, if France and Britain had had the will to act then.

Saddam Hussein has witnessed the eagerness of Congress to cut military capabilities to the bone. He has seized Kuwait, happy in the belief that, with the cold war over, the democracies are weary of unpopular military spending and will not respond to his aggression. If he thinks nothing will stop him, nothing will. That is why the President's decision to send our forces to Saudi Arabia, and the Saudis' willingness to accept them, plus the formation of a truly multinational force are such welcome news.

The United States and our allies cannot stand by and see the oilfields and our friends in the Middle East controlled by Saddam Hussein. We must regain some of our military strength, and we must put together a coalition of countries that know they can continue to be free and prosperous only if they are able and willing to use the military option. Otherwise, their only option is to accept and acquiesce in Iraq's overwhelming ambitions and appetites.

The cost of inaction far exceeds the cost of action.

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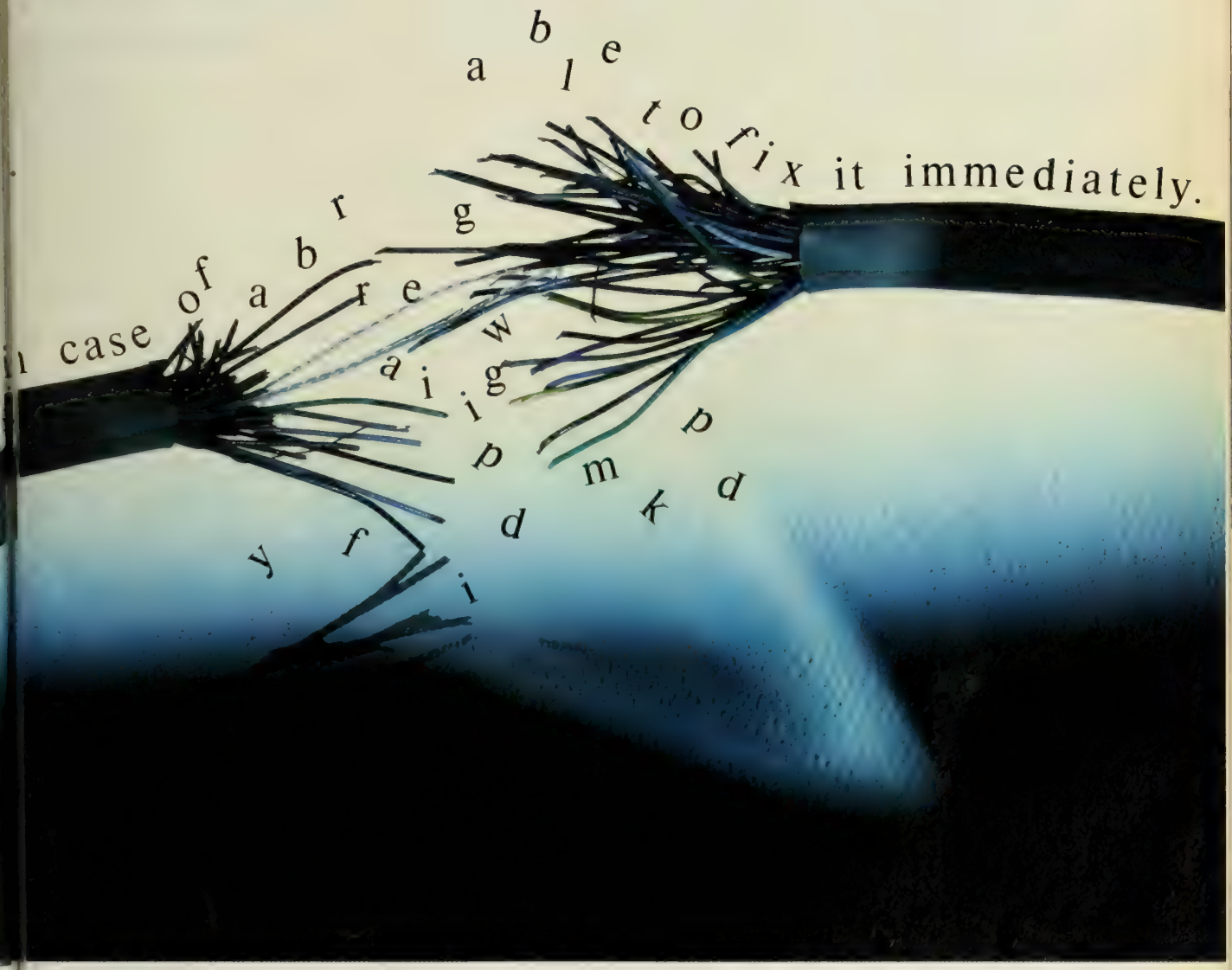

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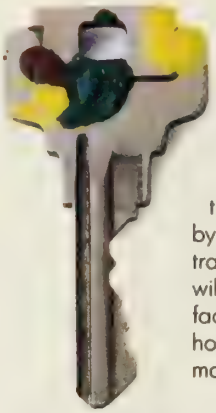

The key to the Norman Rockwell Museum at Stockbridge, Massachusetts, home of the world's largest collection of original works by America's favorite illustrator. By 1993, the museum will have opened a new facility capable of housing three times as many works.

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Edited by Howard Banks

A FINE MESS YOU'VE GOTTEN US INTO, ALAN

Even before dictator Hussein, GNP was stalling

KNOCK AT LEAST THREE-TENTHS of a percentage point off already weak U.S. economic growth as a result of higher oil prices resulting from the threatened Middle East conflict. Knock off another half-point because of increased fiscal tightening as an outcome of the expected budget compromise, however shabby that will turn out to be. And you have a recipe for a recession that could, before its time, end the longest-ever U.S. peacetime expansion.

Odd as it may sound, the prime culprit is not Saddam Hussein of Iraq, or the cost of the world's reaction to his rampage into Kuwait. It is the excessively tight money policy of the Federal Reserve and its chairman, Alan Greenspan, which had already stalled growth.

The tight money policy, maintained more or less constantly since mid-1988, left U.S. gross national product in the second quarter of this year growing only a feeble 1.2%. Recent revisions now show that GNP has been growing at well under a 2% rate since the same quarter in 1989.

The problem is an already weak dollar

SAD TO SAY, THE FEDERAL RESERVE now has limited maneuvering room to rekindle growth.

Inflation is not the key problem for the Fed. Producer prices, for example, are flat to down a bit, and the price level should rise only a modest half percentage point as a result of $25 crude oil prices.

The problem is the dollar. The Japanese have already edged up short-term rates, and the Germans have been hinting that they will follow suit. If the U.S. cuts its rates by very much at all, the dollar could slide even more than it already has since June, intensifying market fears that this will feed future inflation. U.S. long bond rates have already started up. And the dollar seems to have lost pride of place as a safe haven to gold (now around $410 an ounce, up from $370 in June).

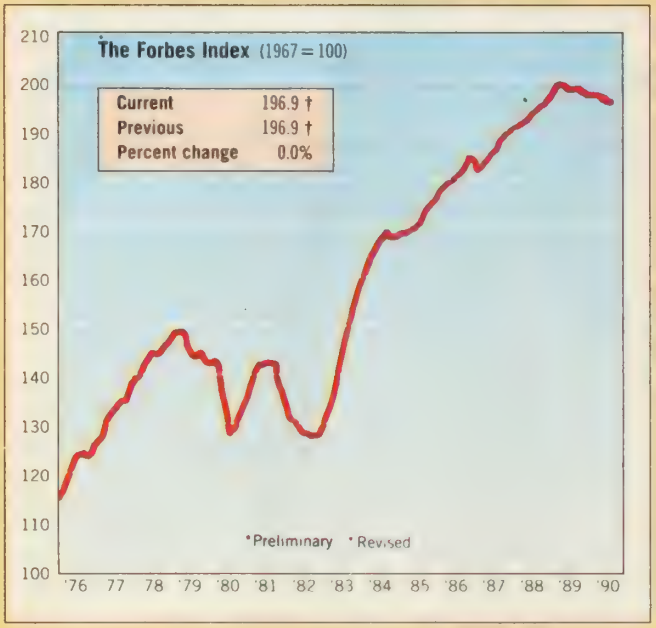
Has the Fed been tighter even than it meant to be?

EVEN LEE HOSKINS, PRESIDENT OF THE CLEVELAND REGIONAL FED and a leading grinch on the national policymaking Open Market Committee, says that the recent slowdown in money growth can't be explained. To make that worse, a technical oddity in the money statistics suggests that the Fed has been tighter even than it meant to be.

Since last summer, currency—actual dollar bills—has been growing at a 7% to 8% clip, much faster than usual, adding an extra $15 billion or so in circulation in just six or seven months. It's unlikely that Americans have suddenly started to stuff their mattresses with greenbacks. The most likely explanation is that dollars have become the currency of choice in Eastern Europe and the Soviet Union as they long have been in Argentina.

If this theory is correct, then the money available to pump the U.S. economy is that much smaller. In fact, deducting that much pushes the money supply below even the Fed's miserly target zone. No wonder, then, that the U.S. seems about to get an unnecessary taste of recession.

The Forbes Index



The Forbes Index fell 0.6% in the first half of 1990. Although the Index is unchanged for June, the restated April figure was off 0.5% after the Department of Commerce revised downward the April figure for personal income. The Department of Commerce also revised the May results for manufacturers' new orders and inventories and the June figure for new orders. The restated data show that new orders fell 2.8% while inventories were off 0.7%. Although the economy may be slowing down, bulging inventories should not be a major problem.

Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	10.0%
Auto sales year to date vs. 1989[1]	Ward's Automotive	–3.6%
Index of leading indicators June vs. May	Dept of Commerce	0.0%
Trade balance 12 months ended May 1990	Dept of Commerce	–$104 bil
Producer price index July vs. 1989[2]	Dept of Labor	3.4%
GNP 2nd quarter vs. 1st—annualized growth	Dept of Commerce	1.2%
NBER Experimental Recession Probability Index[3]	Natl Bureau of Economic Research	5.0%

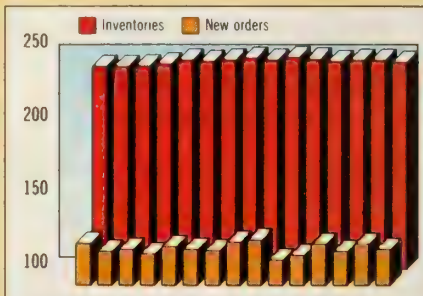
[1]U.S. based manufacturers, excludes imports, as of 7/31/90. [2]Finished goods. [3]June 1990.

Index Components

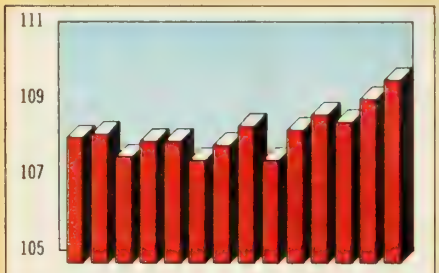
The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

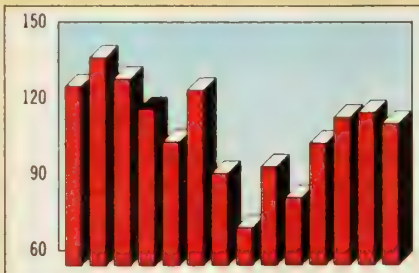
Consumer price indexes (1982-84 average = 100) all urban consumers, unadjusted (Dept. of Labor)



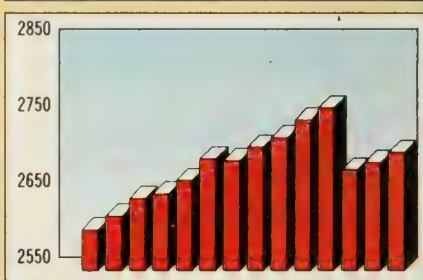
Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)



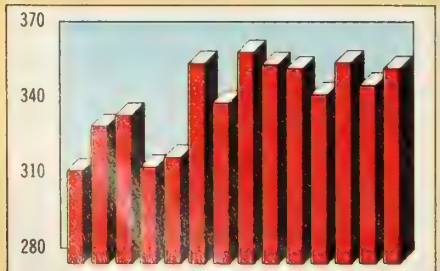
Industrial production index (1987 = 100) seasonally adjusted (Federal Reserve)



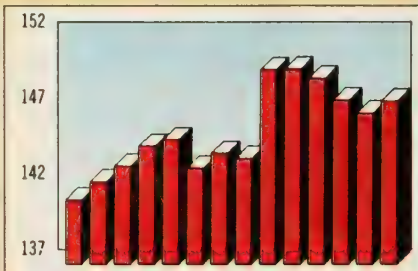
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



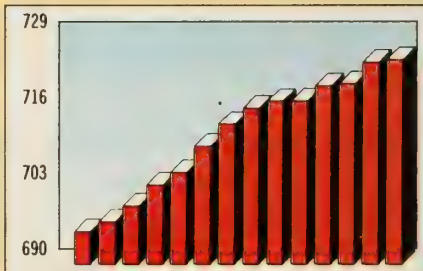
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



New unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)



Retail sales ($billions) seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

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When drivers drink, car insurance rates get high.

It can't be denied that drunk driving is one of the most serious and tragic social problems of our times. It takes a devastating toll on human lives. But the economic costs run high as well.

Drunk drivers are involved in nearly 40% of all fatal traffic crashes. And, a sizeable portion of every insurance dollar goes to pay for the damage they do. They also cost society billions of dollars a year in lost productivity and property. We want them off the road.

Here's what Allstate is doing to help.

Since 1968, we've been calling the public's attention to the drunk driving problem. As far as we're concerned, not enough can be said. To that end, we're diligently working with lawmakers to pass tougher drunk driving laws. We are also providing funds and services to Mothers Against Drunk Driving to help them with their important mission.

We're lending a hand to the National Commission Against Drunk Driving. And, with government agencies and various sports organizations, we've helped form TEAM (Techniques for Effective Alcohol Management)—asking people to think responsibly when drinking at sporting events. If you'd like to find out how you can get involved as well, just write to: Allstate Consumer Information Center, Public Issue Department 200, P.O. Box 7660, Mount Prospect, IL 60056-9961.

Choosing not to drink and drive is how you, personally, can do something to help fight the rise in insurance costs. But that alone won't solve the problem. The car insurance system is due for a change. We're working to see it become a reality.

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The U.S. is nearing the limits of its ability to move and process imported oil. The Iraq-Kuwait crisis will only delay the crunch.

Domestic blockade?

By William P. Barrett

SADDAM HUSSEIN'S AGGRESSION forcibly reminds the American people of our increasing dependence on foreign oil. But oil imports continue to creep upward, rising this summer to above 55% of total oil supplied to the U.S. This leads to a situation that would have plagued U.S. oil users even if Iraq's tinhorn Stalin had not invaded Kuwait.

The long-term bad news is that transportation, storage and refinery facilities along the Gulf of Mexico—already the entry point for most foreign oil—are now running at or near capacity. The U.S., in short, is rapidly approaching the limits of its ability to move and process imported oil.

The invasion of Kuwait will only delay the crunch. Bottlenecks are likely to develop that will reduce the supply of gasoline, heating oil and other refined products primarily to customers in the Midwest and Rocky Mountain states. Price increases will almost certainly result from these storage and distribution blockages, on top of whatever happens to the world price of crude oil.

Amoco Corp. Chairman R.M. Morrow, in a little-noticed April speech to an American Petroleum Institute conference in Houston, warned of the infrastructure danger when he noted that there are "major logistical problems facing the U.S. oil industry" from rising imports. Houston's Matthew Simmons, president of Simmons & Co. International, one of the oil service industry's more respected investment bankers, raises the same specter in a paper now circulating among top Energy Department officials. It's entitled "Our Upcoming Domestic Embargo?" Commenting before the invasion of Kuwait, Simmons argued persuasively that shortages of gasoline and heating oil are probable within one year and could last for three to five more.

Imported oil makes up the difference between domestic needs—which have been rising slowly—and domestic production—which has been dropping sharply. In 1985 U.S. wells produced 9 million barrels a day, while 5 million barrels were imported, for a total of 14 million barrels. Today daily requirements are over 16 million barrels, but domestic production has dropped to around 7 million barrels.

Imports have nearly doubled, to 9 million barrels a day, and at that rate will reach 11 million barrels a day within three years.

Unfortunately, the transportation and distribution system is geared for a far higher level of domestic production. It is not really geared to handle an oil supply that is mostly imported. Most overworked right now is the petroleum pipeline network around the Gulf of Mexico, through which will come virtually all future increases in imports. (East and West Coast facilities are already at or near capacity and have very limited ability to send oil into the Midwest.) From best estimates, northbound pipelines with a daily capacity of maybe 4.5 million barrels of crude or refined product are already carrying 4 million. How will an additional 2 million barrels a day be handled?

Storage capacity for higher import levels doesn't exist, the Energy Department says. Refineries are another problem. Those around the Gulf of Mexico are already running at 91% of operable capacity, their highest level in years, and production is expected to climb. Efficiency improvements will take time and money, and new refineries are unlikely, given environmental regulations. The inevitability is that the U.S. will have to import more refined oil products than it does now. With the infrastructure squeeze, this will lead to higher prices and, most likely, spot shortages.

For the first time in years the tanker situation is starting to get tight—no small matter to the U.S., which by itself consumes 25% of the world's oil production. According to reports, worldwide surplus tanker capacity has dropped from 94 million tons in 1985 to just 3 million tons today. While low by historical comparisons, tanker rental rates during that same period have quadrupled. In the wake of recent collisions, U.S. lawmakers may impose stiffer safety or liability requirements upon tankers, further squeezing the available supply.

If the U.S. economy were to slow more than is predicted, the demand for imported oil would slow, offering some breathing room, but that's scant comfort. Increased domestic production would obviously help, but it will take years to turn around a half-decade of serious decline.

The oil industry is not sitting by idly. Several new Gulf Coast pipelines are on the drawing board. Some existing pipelines could be switched from natural gas to oil. But there is a serious question as to how fast new infrastructure can be built and opened—particularly so long as environmentalist pressure groups find the oil industry such an attractive target.

"For the foreseeable future we will still be able to buy a barrel of Arabian crude," Houston banker Matt Simmons writes. "The difficulty will be getting it delivered to Chicago, Des Moines or Detroit."

The logical response to this historic situation is a revival of nuclear power development to lessen the U.S. need for imported petroleum. But that logic has yet to be accepted by the American people. The shoe is only starting to pinch. ■

How tiny Harken Energy won some promising Persian Gulf exploration rights and got the Bass brothers to help pay for it.

Fuel for fantasy

By Toni Mack

FEW AMERICANS are watching developments in the Persian Gulf with more intense interest than are Alan Quasha and Mikel Faulkner. Quasha, a New York lawyer, and Faulkner, a Texas oilman, are the principals in little Harken Energy Corp., based in Bedford, Tex.

Harken owns a gasoline retailing business in 19 states, gas pipelines in Texas and Louisiana and slightly fewer than 7 million barrels of oil and gas reserves in the U.S. But Harken's crown jewel lies in the Persian Gulf. Only this past January the Arab island nation of Bahrain awarded Harken exploration rights to almost all its offshore acreage. The acreage lies between the world's largest oilfield, in Saudi Arabia, and one of the largest natural gas fields, offshore of Qatar.

Bahrain's strategic Persian Gulf location will make the issue of oil exploration somewhat academic if the area turns into a war zone. But when peace comes, the Bahrain exploration rights could be immensely valuable. Finding hydrocarbons is no sure thing—it never is, in exploration—but if Harken does, the payoff for its shareholders could be enormous. "This is an incredible deal, unbeliev-

Kenneth Chen

Harken Energy Corp. Chairman Alan Quasha
Luck followed by homework produced "an incredible deal."

Charles Thatcher

Harken Energy President Mikel Faulkner, with the Bahrain flag
Prospecting near the world's largest oilfield.

able for this small company," says Charles Strain, an energy analyst at Houston's Lovett Underwood Neuhaus & Webb.

The deal caps quite a half-decade for Harken Chairman Quasha and President Faulkner, both 40. In 1986 the pair was helping others restructure distressed oil properties; Harken booked all of $4 million in revenues that year. "We were in a capital-intense business without capital," says Quasha.

But the duo proved adept at raising capital. In 1986 Harvard's endowment fund invested $7 million and began spending more to help Harken buy other energy-related assets. Harvard liked the pair's investment strategy. After several acquisitions, revenues grew to $1.1 billion in 1989, and Harvard now owns 26% of Harken's common on a fully diluted basis. Another big investor, a Swiss outfit controlled by South Africa's rich Rupert family, owns 21% in partnership with Quasha's family. (Quasha's father is a wealthy lawyer in the Philippines.) A Saudi investor holds another 17%.

How did Harken win its "incredible deal" in Bahrain? As so often happens, luck played a role. In April 1989, with their existing oil production ebbing, the Bahrainis wanted to find a company to explore their offshore acreage. They turned to Michael Ameen, 66, the American-born son of Arab immigrants. Ameen spent 22 years with Aramco and 13 years running Mobil's Mideast operations before retiring in 1988. "The Bahrainis told me they wanted a small company for which this would be the biggest deal and get the fullest attention," says Ameen. "I didn't know any."

By coincidence, ten minutes after the Bahrainis' call, Ameen took a call on another matter from a friend, Little Rock investment banker David Edwards, who had done work for Harken. Ameen described his problem. Edwards mentioned Harken.

Within a few months, a Harken exploration team was in Bahrain to assess geologic data. Their first act, though, was to surprise Bahrain National Oil Co. officials by making a three-hour presentation on Bahrain's geology. The Bahrainis were impressed. "It was love at first sight," says Ameen. In January the company signed a production-sharing contract with Bahrain that entitles Harken to an undisclosed slice of any oil and, in some cases, gas found.

Developing the concession, now that Harken had it, required a lot more capital than Harken had. Harken needed a partner. The deal was so attractive that Harken could pick and choose among more than 25 interested companies, including five major oil companies. It settled on Fort Worth-based Bass Enterprises Production Co., a mostly domestic exploration company owned by the Bass family. The Bahrainis approved, liking the idea of a small company backed by a vast fortune.

Bass will pay for the first three wells, at an estimated cost in the neighborhood of $25 million; Bass can then drop out or pay for further drilling to earn 50% of Harken's contract. The first well will be drilled on a reef that may signal the underground presence of an oil reservoir. Harken does not plan to drill until early 1991, and it hopes Saddam Hussein will have retreated into his lair by then.

Risks certainly remain, but Quasha and Faulkner are already planning to split Harken into three pieces: gasoline retailing, natural gas pipelines, and exploration and contract drilling. The pipeline operation, which builds lines to gather gas from a field's wells and carry it to a larger pipeline, has been expanding smartly. The gasoline unit operates stations in rural areas where competition is less fierce, but its margins in a volatile business can be exceedingly thin; the unit has caused Harken losses.

The split will be accomplished through a rights offering. Under this plan, Harken shareholders will receive rights to purchase shares in the pipeline and gasoline units, which will then be separately traded and independently operated. The proceeds, more than $40 million, will be used to pay down debt, fund capital spending and provide working capital. After the offering Harken Energy will include only exploration and contract drilling.

Speculating that Harken will find a huge field—in oilmen's lingo, an elephant—is risky. Wells in other areas offshore of Bahrain have found nothing worth developing. Saddam Hussein complicates the risk.

Still, there's fuel for fantasy. "Other companies that have discovered giant fields," says Monte Swetnam, president of Harken's exploration unit, "have gone on to become major companies in this industry." At a recent price of $3.13 on the New York Stock Exchange, Harken's 32.8 million shares have a market capitalization of $102 million. On earnings the stock is no bargain, but as a crapshoot on the Persian Gulf, it has some tantalizing potential. ■

Did Morgan Stanley play fair with Fort Howard's junkholders? Morgan is mum, but the evidence suggests it did not.

A sweetheart of a deal

By Phyllis Berman with Roula Khalaf

DID MORGAN STANLEY, that paragon of Wall Street righteousness, stiff the junkholders of Fort Howard Corp.? Morgan Stanley refuses to talk about the sale of some of the paper company's assets, but evidence uncovered by FORBES suggests that Morgan has engaged in self-dealing, perhaps at the expense of the junk bond holders.

It was a complex deal, and that's perhaps why it attracted so little attention, even from the Fort Howard junk bond holders. But some smart analysts at Shearson and several other Wall Street houses took one look at the deal and downgraded their recommendations on Fort Howard junk bonds. Here's what happened:

Fort Howard is a highly efficient manufacturer of paper products such as napkins, tissues and towels. It was taken private in 1988 by Morgan at the height of the leveraged buyout craze in a deal that left the $1.8 billion (revenues) company groaning under $3.5 billion in debt. Morgan and Morgan's Leveraged Equity Fund II took a nearly 75% equity ownership. Fort Howard thus joined other companies in Morgan's growing sideline of industrial holdings run by Donald Brennan (FORBES, *Feb. 19*).

Fort Howard had bought Maryland Cup in 1983 and Lily Tulip in 1986, then merged the two producers of disposable paper and plastic cups under the name of Fort Howard Cup.

Maryland Cup was the premier company in the industry, and it and Lily Tulip were expert marketers; they would customize products for customers, be they giant McDonald's or the smallest drive-in. Did the cup companies charge a premium price for their products? Yes they did, but customers paid willingly for the fast service and custom designs.

As for the original Fort Howard, its expertise was in manufacturing. For years it has been a low-cost producer of tissue products for the commercial market. In effect, a manufacturing-oriented company had acquired market-oriented businesses.

But at that point Fort Howard made a classic mistake. It decided to save money by cutting back on the large, well-paid sales organizations used by the cup companies and have its own sales force take over. The Fort Howard salespeople sold on price; the cup people had always sold on quality and service. Almost immediately Fort Howard Cup began losing market share. By 1989 the division's share of the U.S. market had dropped an estimated 4%, to 21%. Fort Howard Cup's domestic gross profit margins fell from 32% to 16%, and its operating income sank to $39 million on sales of some $850 million in 1988. Morgan decided to get it off Fort Howard's books.

Did Fort Howard's creditors object to the sale? No, because under Fort Howard's bank indentures the company was required to use proceeds from asset sales to pay down debt. Morgan told Fort Howard bondholders that it expected to raise $1 billion from the cup subsidiary sale.

Temple-Inland, Federal Paper Board and a dozen other companies expressed interest in Fort Howard Cup. Morgan put the business up for auction, and called for sealed bids accompanied by a signed commitment from the bidders not to disclose details of their bids.

Late in 1989 Morgan announced that the auction had failed; the firm had not received a suitable bid. Morgan then gave bidders a final round but shortly announced that there were still no suitable bids.

By that time Morgan had come up

Steve Sullivan

Chief of Morgan's merchant banking, Donald P. Brennan
He protects the bank's investments, but who protects the bondholders?

with a better idea: to spin off the cup subsidiary—to be called Sweetheart—to itself and its partners in Morgan's Leveraged Equity Fund II. Why? Because, as any fool could see, the cup division could be immensely profitable once it restored its marketing. Thus Sweetheart alone would be easier to sell off or take public, benefiting both Morgan and its investors.

Under the terms of the buyout, Fort Howard received $322 million in cash from Sweetheart and a note for $210 million guaranteed by Morgan. Where did the money come from? Sweetheart simply borrowed the bulk of the money against its own assets and cash flow. Fort Howard also retained a half-interest in Sweetheart through ownership of a separate class of shares with preferred features.

Morgan threw in about $10 million in new equity, all of which it got back in fees related to the deal. The LBO fund and other investors contributed another $25 million.

Morgan Stanley and its LBO fund took over 35% of Sweetheart's common stock. Since Morgan and its fund also still own about 75% of Fort Howard, and Fort Howard still owns half of Sweetheart, Morgan's de facto interest in Sweetheart comes to about 75%. Which leaves Morgan, for practical purposes, about where it was before the deal was done.

In short, after all the expensive paper shuffling, Morgan still controlled both oufits.

Morgan turned Sweetheart's management over to Philip Silver and Greg Horrigan of Silgan Corp., a packaging outfit controlled by Morgan. Silver and Horrigan got a small equity stake in Sweetheart.

What about Fort Howard's junkholders? Ah, there's the twist.

FORBES has learned that one of the rejected bidders had offered around $800 million in cash—in the second round of bidding. This compares essentially with the $630 million value Morgan put on the price it paid Fort Howard for Sweetheart.

Had Morgan accepted the $800 million offer, it would have been required to use the full amount to pay down Fort Howard debt. With the deal Morgan structured for itself, only $322 million in cash was made immediately available—plus another $210 million in a year—to reduce Fort Howard debt, instead of the $1 billion Morgan had promised or the $800 million that would have been available had Morgan accepted the highest cash offer.

Morgan refuses to comment, but the facts suggest the following: When the auction failed to yield anything like $1 billion, Morgan was faced with a dilemma. The bondholders of Fort Howard were expecting a sale, the proceeds of which had to go to pay down debt. A failed auction would damage Morgan's credibility, and word of it might send Fort Howard bonds plunging, further damaging Morgan's hitherto quite strong reputation for running solid deals.

In the event, Morgan protected its reputation, Fort Howard junk bonds held around par and Morgan and its LBO fund still owned some 75% of both companies. Morgan also earned a lot of fee income. Representing both the seller—Fort Howard—and the buyer—the new Sweetheart—Morgan granted itself about $13 million in fees, with more expected.

Where does this leave Fort Howard and the holders of its $1.6 billion in junk paper? In a somewhat tenuous position. Fort Howard is a low-cost producer in the tissue business and generates a stable cash flow, around $310 million a year after needed capital spending. But it groans under $300 million in annual cash interest payments alone, not to mention payments on the principal and payment-in-kind bonds. It's a good business, but clearly overleveraged. "I've advised my clients to sell [Fort Howard junk bonds] because I don't think earnings can support cash interest payments, debt amortization and capital expenditures," says Ashok Vasvani, high yield analyst with Shearson. "This is a great company, but a lousy investment." Salomon Brothers also revised its recommendation.

Fort Howard will pay down more debt. Remember, Sweetheart issued Fort Howard a note for $210 million. Morgan had hoped to redeem the note by selling Sweetheart junk, including payment-in-kind bonds on the junk market, but that market collapsed. There's talk that Morgan is planning to try again soon. If it can market Sweetheart junk, Morgan will reap additional fees. But placing the junk is iffy given today's turbulent markets. In any case, Morgan will have to make good on Sweetheart's note by this November.

The whole thing is a splendid example of the sophisticated paper shuffling that passes as "restructuring" on Wall Street and that has put billions of dollars into Wall Street and deal makers' pockets, usually at the expense of junkholders.

Did Morgan put its own interests in the deal ahead of those of the Fort Howard junkholders? Did it abuse its position as adviser to both companies by charging fat fees? Morgan doesn't want to talk about it. But the fact is that it could have accepted that $800 million offer for Sweetheart, which would have produced a lot more cash for the junk bond holders but fewer fees and fewer profit opportunities for Morgan. ■

All the major personal computer companies are rushing to sell the home market. Who has the right approach? IBM? Tandy?

Painful positioning

By Steve Weiner

WITH GREAT FANFARE, International Business Machines Corp. has kicked off the next round of personal computer wars—the struggle to sell the ideal machine for home use.

IBM's new PS/1 line, priced in the $1,000-to-$2,000 range (half as much as the equivalent machine in the company's PS/2 business PC line), represents a major effort to gain a big piece of what could be a $55 billion, ten-year home computing market.

IBM spent 18 months studying what 3,000 first-time computer buyers and shoppers wanted from a computer. The PS/1, which goes into national distribution this month, is IBM's first home product since the ill-fated PCjr was withdrawn from the market in 1985. That product lacked memory and storage and was plagued by its poorly designed keyboard.

The PS/1 suffers from none of those faults. It's a fairly sophisticated but relatively easy to use package of hardware, software, support and service that's more than adequate for most home business and office functions. The fully loaded model has a top-quality color display, mouse, modem, and a hard disk drive. The package is designed to appeal to the 20 million families with incomes starting at $50,000 that include one member who knows something about computers.

IBM hopes to appeal to customers who want to bring work home from the office or run a small business from home. It also hopes to attract other family members who may find a business machine daunting. IBM has made a conscious choice not to design a machine whose main appeal is simplicity or an ability to solve household problems. In fact, says Frank E. (Skip) Gladfelter, PS/1 marketing manager, IBM concluded there were no compelling household applications. About 75% of PS/1 buyers in test markets use the computer for writing and business-related tasks.

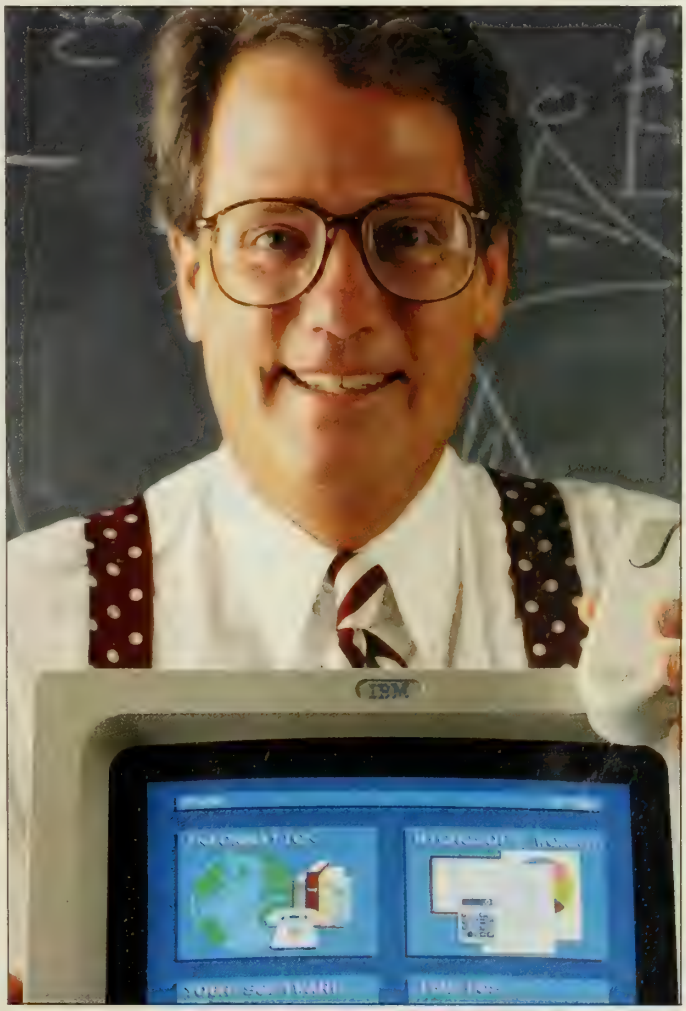
So the PS/1 is "way too complex for senior citizens," concedes Gladfelter. "And it's not for the non-computer-literate family, the other 30 million or 40 million families that have enough income to buy a computer." As such, he says, "the positioning of this product has been very painful."

Painful in part because competitors have studied the same market and come to different conclusions. Apple, a pioneer in simple, low-cost machines, plans to launch its inexpensive Macintosh computer, priced below $1,800, in October. Tandy Corp., with its 7,046 Radio Shack electronics stores, in July introduced its 1000 RL model, priced up to $1,400.

IBM focused its research on people who learned to use computers at work. But Tandy, which introduced its first 1000 model six years ago, designed its package for first-time users and around standard household tasks. Clearly, IBM and Tandy have different views of who buys home machines and how they will use them.

Example: To balance a bank account on IBM's PS/1, a user must first learn how to use the unit's spreadsheet program or buy and load a personal finance program. But the 1000 RL comes ready with a checkbook balancing program, as well as grocery lists, electronic memo pads, recipes, travel planners, a calendar, an address book, a stock portfolio manager and other flotsam and jetsam of home life. The Tandy machine is aimed squarely at people who want to use computers to keep lists and manage the home. "We think it's too

Bob Hower Quadrant



IBM PS/1 marketing manager Skip Gladfelter
A home computer for the computer-literate.

much trouble for most people to learn to run a word processor or a database manager when they want to leave a note or compute a mortgage payment," says Edward Juge, Radio Shack's market planning director.

Who's right? At the start, IBM machines will surely sell well on the strength of the maker's name. But when that wears off, and after the Christmas rush, the industry will learn which company has best judged the popular-priced home market. IBM wants badly to break into a mass market; for the first time, it is substantially breaching its dealer network by selling the PS/1 in popular outlets such as Sears and department stores. "We are in a race here," says Anthony Santelli, who runs IBM's PS/1 program. "We have to do better." ■

Stockbroking for big institutions is a tough and low-profit business. So why is Boston's Fidelity taking the plunge?

Henry Ford, meet Ned Johnson

By Richard L. Stern

EDWARD C. (NED) JOHNSON 3d, chief executive officer of Boston-based FMR Corp., couldn't hail a cab one day. So he started a car service. More recently, Fidelity, the nation's largest mutual fund company, with $106 billion under management in mutual funds (number two Merrill Lynch has $94 billion), purchased a chain of art galleries, Wentworth Galleries.

This is the kind of thing bosses of stockholder-owned companies hesitate to do for fear of criticism, but Ned Johnson operates under no such inhibitions. He is the undisputed boss of Fidelity, controlling 47% of the stock. The other 53% is owned by employees who must sell their stock back to the company when they leave. Obviously, Johnson can do pretty much anything he pleases. That includes running the business of managing $116 billion in assets with an eye on the long term rather than operating for immediate profits. Fidelity earned just $53 million last year on $1 billion in revenues.

Fidelity says its discount brokerage business is the second largest in the nation; Charles Schwab is number one. Fidelity is also selling insurance, and it has a venture capital company. It is the nation's largest mutual fund manager of 401(k) retirement assets.

So now Johnson has decided to put Fidelity into the cutthroat institutional stock brokerage business.

John Kennard

Fidelity's Sherif Nada
Everything under one roof.

Why? "The [institutional brokerage] business is break-even at best for most brokerage firms," says George Monahan, director of industry studies for the Securities Industry Association. Average commission rates have dwindled to maybe 5 cents a share.

Nevertheless, last September Fidelity hired Sherif Nada, who had been head of Salomon Brothers' Boston institutional operation. Since then Fidelity has been going after institutional business with a vengeance. Nada's operation, Fidelity Capital Markets, now numbers 105 employees. And soon after Nada arrived, Fidelity bought the division of Los Angeles-based Newhard, Cook & Co. that specializes in "soft dollars," supplying institutions with investment-related tools like Quotron machines in exchange for brokerage commissions. Fidelity Capital Markets has also started trading government and municipal securities.

FORBES put a question to Nada: Is it true Ned Johnson got into institutional brokerage because he hates giving business from his funds to other brokers? Nada laughed but didn't say no to the question. He acknowledged that his operation has become one of the biggest brokers for Fidelity's mutual funds' exchange-listed trades. It also handles all Fidelity's retail discount business. Which fits in nicely with Johnson's philosophy of doing things himself rather than paying outside suppliers.

It's not unlike the philosophy espoused by Henry Ford, who wanted to make at the Dearborn, Mich. plant everything that went into a Ford: steel, glass, engines, the works.

With this difference: Henry Ford made steel and glass only for his own cars. Ned Johnson is more pragmatic. Fidelity's car service isn't only for Fidelity employees. Fidelity's back-office mutual fund operations are sold to outside fund companies, including banks. Fidelity's huge New York-based clearing operation also handles back-office work for over 120 other brokerage firms. By the same token, Nada says more than half his office's business now comes from outside the Fidelity family. "We're not talking about the business of the 250 top institutions that everyone else is going after. We're going after the next 250," he says.

Fidelity now also owns five specialist posts—two in Boston and three recently acquired on the Pacific Stock Exchange. Undoubtedly, Nada's operation will channel business to these specialists.

Nada thinks there's going to be a big shakeout in the institutional brokerage business, and Fidelity has the staying power to be one of the survivors. Unencumbered by having to play to a public company's game of producing earnings for Wall Street, Johnson can afford to take the long-term view. And if some of his flowers don't blossom, others will. ■

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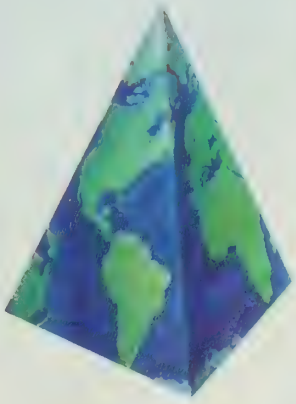

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hrust.

On the Docket

In the past decade courts have increasingly ruled in favor of the rights of patent owners. Have they gone too far?

Smash the competition

By James Lyons

PATENT LAWYERS, who have traditionally plied their trade by writing letters to other lawyers, have added a potent weapon to their arsenals: the preliminary injunction.

These injunctions stop would-be infringers in their tracks. Sales of offending products are banned for the duration of the litigation. Irksome competitors are sometimes out of business before there's a trial on the merits of the claim.

It works like this: The research and development types at your company devise a "new and unobvious" process or product and receive a patent for it. Patents are supposed to spur innovation, so as a reward for all the money you spent on research, your company will have the exclusive rights to the product for 17 years.

So far, so good. Then one day your salespeople tell you a startup company is selling a product remarkably similar to yours. What's more, the competitor is selling it at a lower price. Time to call your patent lawyer.

A complaint is filed, charging the competitor with infringing on the patent. You want damages and you want an injunction barring the competitor from selling the product until the litigation is finally resolved.

The patent lawyer is expensive, but in this case, well worth it. The judge grants you the preliminary injunction. The competitor can't sell the product and is blocked from challenging your market share. Capital for the startup vanishes, and eventually so does the competitor.

Although judges are supposed to grant preliminary injunctions only when they believe there is a "reasonable likelihood of success" of a patent infringement claim, remember that a full-blown trial has yet to occur.

Take the case of Pharmacia, Inc. and one of its competitors, MedChem Products, Inc. Pharmacia is the U.S. subsidiary of a Swedish concern with the exclusive license on a patent for ultrapure hyaluronic acid, a gel used in eye surgery. It's about an $80 million market, and Pharmacia has 75% of it. Total sales for Pharmacia's U.S operations last year were $316 million; MedChem's were $17.4 million.

Pharmacia sued MedChem in 198 claiming patent infringement an sought a preliminary injunction. Af ter some delays, Pharmacia got wha it wanted last February. The result MedChem has laid off one-quarter o its work force. Pharmacia struck again in June, this time suing thre other competitors involved with hyal uronic acid. Once again, Pharmacia i seeking preliminary injunctions a possible relief.

Pharmacia says it's just trying to enforce its rights as licensee to the patent. But look at it from anothe perspective: One noted eye surgeon FORBES contacted was familiar with the products at issue, and while he calls Pharmacia's product a "genuine advance," he adds that it is "expensive" and that he achieves the same results by using a cheaper alternative sold by a Pharmacia competitor.

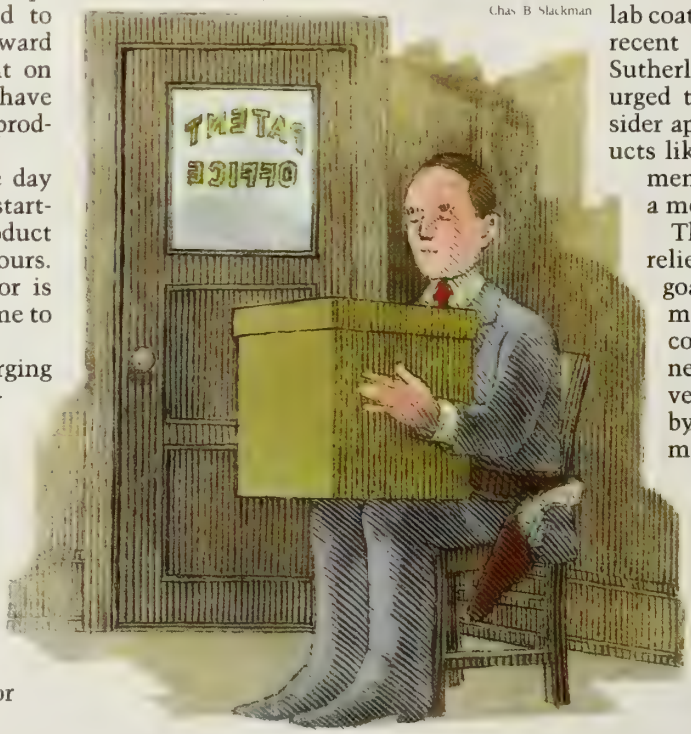
A similar battle is brewing among companies that manufacture mesh screens attached to video display terminals to reduce glare or radiation. The market leader is an outfit called Sun Flex Co., a subsidiary of Anacomp, Inc It has 90% of the $4.5 million market for these devices, and it's a market in which demand will no doubt surge.

In the past four years, Sun-Flex has brought four separate actions to enforce its patents, recently seeking a preliminary injunction against Softview Computer Products Corp., a small New York rival.

The injunction arena may soon broaden beyond the guys in the white lab coats to the Wall Street set. In a recent memorandum to clients, Sutherland, Asbill & Brennan urged that securities houses consider applying for patents on products like stock index futures. The memo also touts injunctions as a means of enforcing patents.

The broader use of injunctive relief is consistent with the goal of strict patent enforcement that's supposed to encourage U.S. competitiveness. But patents to U.S. inventors peaked in 1971, and by 1989 nearly half of the more than 102,000 patents issued went to foreign inventors. This could result in the ultimate irony: foreign holders of U.S. patents increasingly using the U.S. courts to shut down U.S. competitors. Turnabout is not always fair play. ■

Chas B Slackman



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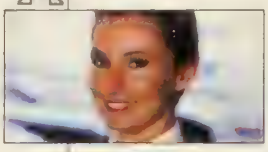

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What business travel should be!

Saddam Hussein may be an ogre, but he won't sink the U.S. economy. That won't happen unless we do the job for him.

UNJUSTIFIED HYSTERIA

By Alan Reynolds

Iraq's invasion of Kuwait revived scary comparisons with the "oil crises" of 1973-74 and 1979. News commentators were quick to warn of waiting lines for gasoline, to blame that situation on a sudden increase in the greed of oil companies and to replay the perennial forecasts of imminent economic collapse. Yet all that has actually happened is that gasoline prices have risen by about 15 cents.

This 15-cent increase is far less than the gasoline tax increase many people were advocating before Saddam Hussein unleashed his Third World version of a blitzkrieg. Moreover, it looks to be the maximum damage Saddam is likely to visit on the U.S. economy—unless the situation degenerates into outright warfare; or the boycott is allowed to drive oil prices higher without releasing the petroleum reserve; or the U.S. reverts to the wasteful foolishness of price controls; or the Fed tries to inflate us out of discomfort.

The immorality of the Iraqi invasion of Kuwait should not be confused with the economic issues. What OPEC has lacked, until now, is an effective policeman to enforce production quotas. This is the role that Iraq's Saddam Hussein aspires to. Unless he is tamed, terrified smaller OPEC members that previously paid no attention to production limits may well be considerably more "cooperative" in the future. OPEC has suddenly acquired real teeth.

If this happens, won't Saddam try to push oil prices higher and higher? Unlikely. OPEC has learned that to try to push oil prices too high would prove self-defeating by doing too much damage to the economies of the oil-importing nations, and by encouraging development of non-OPEC energy supplies. This is why Iraq and Iran say they merely want oil at $25, not higher, and the oil futures market wisely takes them at their word.

As for dealing with Saddam, a military response to military aggression is usually more effective than economic warfare. For oil-importing nations to impose an embargo on themselves may prove counterproductive. Even if both the Turks and the Saudis keep the pipelines closed, it would require an extremely well-policed blockade to identify and stop tankers carrying oil out of Kuwait. Once a tanker gets out, clever smugglers can disguise loading documents, switch tankers, and the like. Embargoes on Iraqi access to major weapons and parts, on the other hand, are more easily enforced, and are likely to undermine Saddam Hussein's support within his own military.

With some Iraqi oil sneaking out, increased production from other OPEC producers and sales from the strategic reserves, the price of oil need not rise much above $25. Since we have often coped with oil prices far above $25, why are so many people now claiming that such a modest increase is sufficient to either shove the U.S. economy into a major recession, unleash virulent inflation, or both? Facile comparisons with 1973-74 or 1979 just don't wash. Both of those episodes were preceded by blatantly inflationary Federal Reserve policies, unlike the recent experience. Early in 1973 and in 1978, long before the oil crisis hit, inflation was already so out of control that it was bound to end with another Fed credit crunch. Also, at that time, a federal price control bureaucracy was already in place, ready to do the maximum mischief in minimum time.

One deceptive similarity is that the dollar has recently weakened against European currencies. Yet this has not been a sustained downtrend against all major currencies, as it was in the Seventies. Even as recently as June, Morgan Bank's index showed the dollar higher than it had been in December against a basket of 15 currencies. Markets for foreign exchange, gold and bonds appear to be betting that the Fed, unlike other central banks, will try to offset the recessionary risk of scarce oil with an excess of bank reserves. Yet Fed Chairman Greenspan knows that inflating our way out of any difficulties will not work if the bond market doesn't fall for it.

A relative increase in the price of oil will, to be sure, leave consumers with a bit less spare income to spend on other things. And it will make it difficult for producers of energy-intensive products and services to maintain sales volume at prices that will cover the higher costs. Some plans for expanded plant and equipment that made sense when oil was cheaper will have to be canceled. This is a problem, but not necessarily a crisis. The U.S. economy has repeatedly proved more resilient than the experts imagined in the past decade. It will do so again so long as prices are free to allocate energy to uses chosen by consumers, not bureaucrats.

Would $25 oil devastate the U.S. economy? No. It is what Washington might do about $25 oil that could devastate the U.S. economy. If we avoid repeating the blunder of the Seventies—combining price controls with a sink-the-dollar monetary policy—the market can handle this situation smoothly. ■

Alan Reynolds is the director of economic research for the Hudson Institute of Indianapolis, Ind.

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In Russia, Boris Yeltsin, not Mikhail Gorbachev, is in charge. Bad news for the Communist elite and for Saddam Hussein, Fidel Castro and other scroungers. Good news for world oil supplies.

Who's in charge around here?

By Vladimir Kvint

THE FIGHT FOR POWER between Mikhail Gorbachev and Boris Yeltsin is almost over. Yeltsin and his team will define the future of Russia. Gorbachev will end up in a largely ceremonial role.

Americans have been slow to understand this. They tend still to think of Boris Yeltsin, chairman of the Russian parliament, as simply the opposition to the Communist Party. No. Mikhail Gorbachev is president of the U.S.S.R., but Yeltsin has more real power in Russia.

In the long sweep of Russian history—from the 12th century, the time of Novgorod, the Free City, to today—Boris Yeltsin is the first leader, with the possible exception of Aleksandr Kerensky, ever elected by the people. By the people, not by some gang, no by birth or by the knife. Yeltsin started a real revolution, a breakthrough to the lost future, lost in October 1917 when Russia last had a chance for democracy and for real economic development.

Fourteen days after he had been elected chairman of the Russian parliament, he managed to unite the divided Russian parliament for the declaration of sovereignty. Today the U.S.S.R. parliament, headed by Gorbachev, is powerless against the fine tuned Russian parliament.

Gorbachev, afraid to antagonize extremist groups like Pamyat, has failed to speak out against anti-Semitism. Yeltsin has already talked of creating a special commission to safeguard the rights of Russian Jews.

With such moves, 76% of the U.S.S.R.'s territory has gone out of Gorbachev's control. Russia becomes the biggest new country in the world. It has 92% of the oil and gas condensate resources of the U.S.S.R., 85% of the coal, 78% of the gas, 92% of the lumber, the majority of nonferrous metals. As for platinum and diamonds, Russia is the only producer in the Eastern European countries. Rus-

David Burnett/Contact

Boris Yeltsin, chairman of the Russian parliament
More power than Gorbachev?

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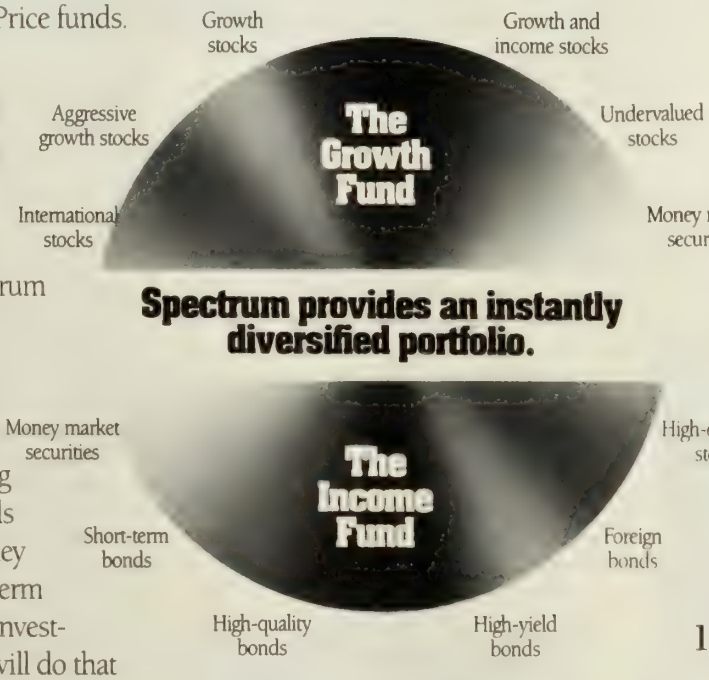

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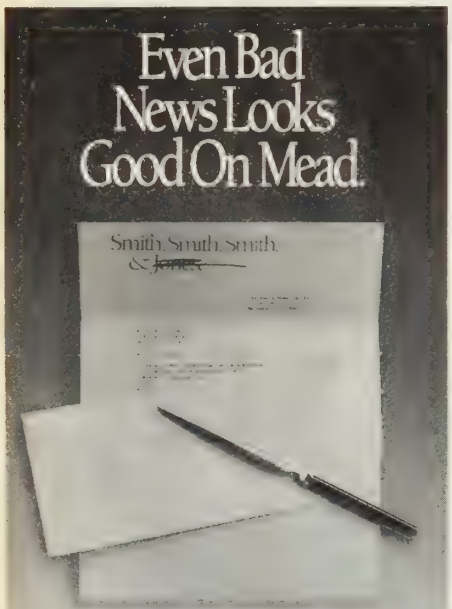

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sia has powerful chemical, automotive and machine-building production, and the productivity of its labor is higher than that elsewhere in the U.S.S.R.

In one and a half to two years Russia will achieve complete independence—quicker than Lithuania—because, unlike Lithuania, Russia has an economic basis for freedom; it can stand on its own.

Yeltsin is already acting to implement that freedom. He has cut the number of ministries from 51 to 28; in 8 of these ministries the staff numbers only 20 people, and their direct task is not to interfere in the economy but to cut back on the powers of the old ministries.

Aiming for financial sovereignty, the Russian parliament has authorized all Russian banks to withdraw from the U.S.S.R. banking system, which would deprive the government of financial management levers. Yeltsin clearly intends, for the first time in U.S.S.R. history, to break the monopoly of the central government on foreign trade and currency transactions. The Bank for Foreign Economic Affairs of Russia was created. He has created a TV network for Russia independent of the U.S.S.R. network.

Russian oilfields pumped out 115 million tons of the oil that was exported by the U.S.S.R. in 1989; 88 billion cubic meters of gas, 88,000 tons of copper, 17 million tons of pulp, 400,000 cars and trucks, 17 million watches exported by the U.S.S.R. were produced in Russia. Export of part of the petroleum production generates hard currency, all of which will go to this new bank, to remain in Russia, rather than to the government of the U.S.S.R.

Why is Yeltsin so popular? In part because he defied a basic rule for political careers in the Soviet system. The rule says there is no comeback for a fallen politician. This terrible totalitarian machine first produced bosses, then utilized them as fuel for itself to further its horrendous movement. At best, it just threw people away, reduced them to ashes, letting them live and die in obscurity. At its worst, it killed them.

But Yeltsin didn't disappear into obscurity. He came back and became so popular that it is in the best interests of Gorbachev to protect him rather than try to edge him out. For if anything were to happen to Yeltsin, it could cause a civil war. Yeltsin, however, has already freed himself from "protection" by the KGB: His personal guards—up to ten people—do not work in the KGB and are responsible to the parliament of Russia.

In reemerging from obscurity, Yeltsin not only became immensely popular, he helped make obsolete the very notion of the U.S.S.R. as a whole. This kind of makes Gorbachev a king without a kingdom. Soon Yeltsin may become the chairman of a Council of Presidents of Independent Republics, where there will be no place for Gorbachev. Remaining president of the U.S.S.R., Gorbachev will have purely nominal and ceremonial functions, not unlike those of the Queen of England in the British Commonwealth.

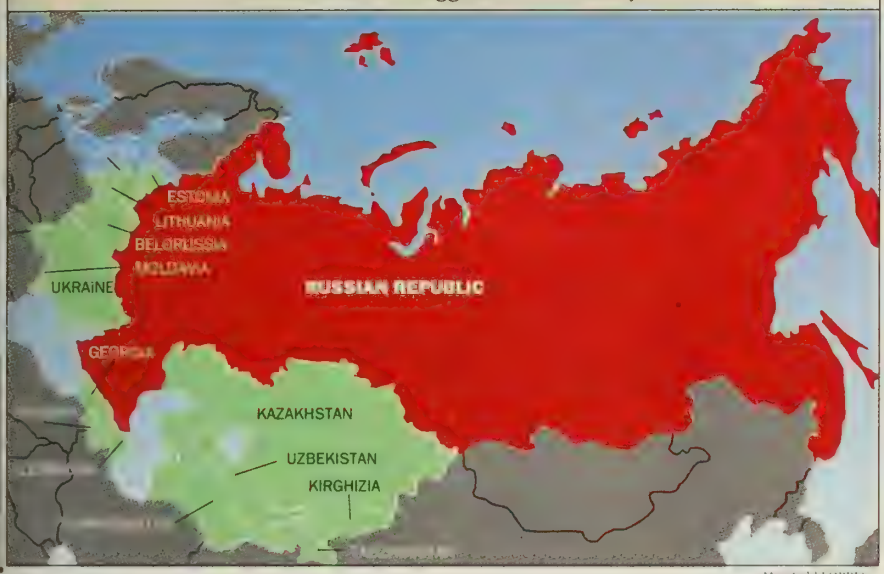
Meanwhile, Gorbachev, although a historic and definitely positive figure, still tries to solder the old saucepan of socialism. His efforts are wasted, because this saucepan never did hold water. People in the U.S.S.R. have a saying: "Soviet paralysis is the most progressive in the world."

DAK/Sygma

U.S.S.R. President Mikhail Gorbachev
A kind of king without a kingdom.

The powerful Russian republic

With 76% of the U.S.S.R.'s territory, it's the world's biggest new country.



Mansfield/FORBES

Yeltsin's past shouldn't be idealized. He was the almighty party boss of the huge Sverdlovsk territory. I am quite sure that in 1985 Gorbachev was closer to understanding democracy than Yeltsin, but in 1986, when Yeltsin was appointed Moscow party boss, he started to leave Gorbachev behind.

Yeltsin worked from 8 in the morning until 12 at night and slept in a small room next to his office. He really tried to improve the quality of life for people. Suddenly Moscow started to look more human, there were more vegetables in the shops, the ruined transportation system was improving. He kicked out the entrenched Moscow *apparatchiks.* Corrupted and lazy, they tried to stop him. In 1987 he made a critical speech at the closed plenary meeting of the Party. Gorbachev had called for self-criticism within the party, but this was going too far. Within the Politburo, Yeltsin was abandoned by everybody.

Badly hit by heart disease and "burnt out," Yeltsin was pushed out of the way, to the joy of bureaucrats. But Gorbachev did not destroy Yeltsin entirely, instead giving him an insignificant job. That was Gorbachev's way of getting rid of Yeltsin and at the same time persuading the West that people could dissent and still hold top jobs.

But at home it made Yeltsin a martyr. He was thrown from the top, he "suffered for truth," he became more human and, at the same time, a symbol. Sakharov was a bigger martyr, a real martyr, but for the bulk of the nation he was too much of an intellectual, too much a "citizen of the world," while Yeltsin is flesh of the flesh, blood of blood.

Thus whatever was said against him by Gorbachev immediately worked for Yeltsin. His modest "Moskvich" car, in which he used to drive to the meetings of parliament, contrasted sharply with the huge black party limousines, baptized by the people as "coffins." At the 19th party conference, when Yeltsin asked for political rehabilitation, Yegor Ligachev assailed Yeltsin with all the rhetoric at his command: "Thou art not right, Boris." After that the cooperatives manufactured millions of badges with the words: "Thou art not right, Yegor." In 1989 92% of Moscovites elected Yeltsin to the U.S.S.R. parliament.

In 1990, before leaving for the summit, Gorbachev gathered the Russian parliament deputies, asking them not to vote for Yeltsin. That virtually guaranteed Yeltsin's election.

Although power has moved from Gorbachev to Yeltsin, the critical moves still lie in the future. The first move will be the conversion of state enterprises into rented, private, stockholding companies. This process will start widely at the end of 1990. The second will be abolition of a centralized distribution and supply system. Here the first critical point will be reached sometime between February and June 1991, the second not earlier than the winter of 1991-92. These are problems, but the problems of growth, not stagnation.

What is the near future? The economic privatization program is already laid out—far ahead of Gorbachev's timid moves to allow private property. When the Russian parliament meets again on Sept. 3, I'm sure foreign economic activity will be a top-priority question.

Some of the most far-reaching consequences of Yeltsin's accession to power will be in the area of foreign relations. This year the decisions will be made whether to cut supplies from Russia to such hot points as Cuba, Libya and Syria. Can Yeltsin and the Russian parliament overrule the U.S.S.R. government on foreign relations? Yes. And Russia will demand hard currency for its oil rather than almost giving it away to Cuba. Soldiers from Russia will no longer be sent to interfere in ethnic conflicts beyond Russia's borders.

If Saddam Hussein has any hopes of help from Russia, he is only fooling himself. On the contrary, Russia can help relieve any shortages Saddam Hussein tries to create. It can do so by stepping up its own oil production. All it needs is Western geophysical technology and equipment. For this it will make its own deals, bypassing Gorbachev's government.

The question of Russia's participation in the United Nations and the European Community will soon be on the agenda. Membership won't come overnight, but things are moving in that direction.

In all this, for the real initiatives, look to Boris Yeltsin and not to Mikhail Gorbachev. Yeltsin is the leader. A poll of public opinion has shown that 84% of the U.S.S.R. population supports Yeltsin, while only 12% supports Gorbachev.

And, for perhaps the first time in Russian history, what the population really wants really matters. ■

Larry Reader/Sipa

Cuba's Fidel Castro
Cut off from supplies?

Yaohan department store in Hong Kong's New Territories
Selling Japanese products and lifestyle.

Mary Beth Camp/Matrix

Asia's growing ranks of middle-class consumers are creating an enormous market for Japanese retailers.

Selling the Japanese way of life

By Andrew Tanzer

IT'S SUNDAY IN TAIPEI, and the hottest place in town is the gleaming 12-story, 300,000-square-foot Pacific Sogo Department Store.

From all over Taiwan, thousands of eager shoppers mob the city's biggest, fanciest retailer. They come to gawk at the Japanese-style customer service touches—the smiling salesgirls bowing and welcoming customers at the entrance, the demure elevator girls in white lace gloves. And they've come to buy: Japanese cosmetics, fashion, gift items, office supplies, VCRs, eyeglasses, coffee and even noodles.

The scene is much the same in Hong Kong, Singapore, Bangkok, Jakarta and other major Asian cities. Lured by rapid economic expansion—department store sales in some countries are growing by 30% a year—Japanese mass retailers are piling in. They're building air-conditioned shopping centers, department stores and supermarkets. And they're providing what Asian shoppers want: luxury, fashion and convenience.

Back home, Japanese retailers face market saturation, exorbitant land costs, low profit margins and laws designed to protect small retailers that hamper expansion of the big chains. So they've set their sights overseas in the fast-growing Southeast Asian economies. Yaohan, a Japanese regional general merchandise chain, finds prospects in the region so attractive that it's moved its headquarters to Hong Kong from Japan, reportedly the first company listed on the Tokyo Stock Exchange ever to leave Japan.

Jusco, another big merchandiser, recently opened the first suburban shopping center in Bangkok—with 1,000 parking spaces—and the first modern supermarket in Kuala Lumpur. In Hong Kong, the most developed retail market in the whole region, the Japanese will have 19 department stores by the end of the year and will account for 50% of department store sales.

Competitors concede that the Japanese have succeeded in winning over young, affluent shoppers by introducing superior department store management and technology, much of it originally imported from the West and refined in Japan. All this has been done quickly but not rashly: The Japanese usually spend two years studying consumer tastes and training workers before opening a store.

"The Japanese have outdone the locals," concedes Dickson Poon, founder of Dickson Concepts, a high-flying Hong Kong-based luxury products retailer (FORBES, *Mar. 20, 1989*). "I wouldn't be surprised if someday they nearly dominate the department store market." Ian Wade, managing director of the outfit operating Hong Kong's second-largest supermarket chain, agrees: "Whether you're eating it, wearing it, driving it or listening to it, there's a strong youth-led trend to the Japanese way of life."

The Japanese are typically very strong in merchandise selection, display and customer service. What were Taiwanese department stores like before Sogo opened its showcase? "Salesgirls sat around drinking tea, napping and ignoring customers," snaps Suero Nishiyama, manager of the Sogo store. "Before, when you walked into a store, all you saw were

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Victor Hugo

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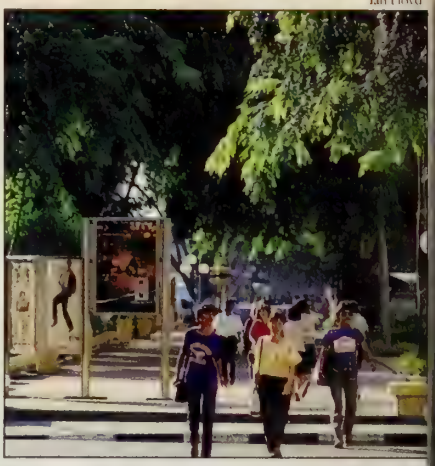


Singapore's fashionable Orchard Road
Mass retailing, Japanese-style.

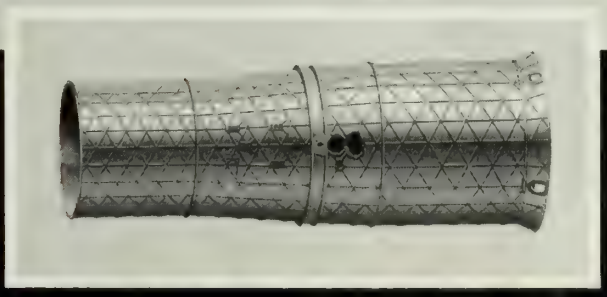
racks of merchandise," recalls Peter Zen, president of Today's Department Store Co., a local outfit. "Now you see it presented." Such touches pay off. The three-year-old Sogo store was an overnight success, turning a profit in its first year; sales this year should reach $200 million.

Japanese-made goods are getting more exposure from all this—at the expense of merchandise from other countries. With old, established business relations, Japanese retailers have more buying power and wind up earning bigger margins when supplied by Japanese manufacturers.

Typically, 20% to 40% of a Japanese department store's merchandise is imported from Japan, depending on local tariffs and incomes. The stores also provide instant distribution for products from the rapidly growing number of Japanese factories in the region that produce everything from electronics to noodles.

And what about the famous large-scale U.S. retailers? They are notable chiefly by their absence. Except for Toys "R" Us, which has had tremendous success in Hong Kong, Taiwan, Singapore and Malaysia, there aren't any in the region. Even the British and French are far ahead of the U.S. in this respect. The merchandise in Marks & Spencer's four Hong Kong stores comes almost exclusively from the U.K. At Galeries Lafayette on Singapore's Orchard Road, 75% of the goods for sale are imported from France. But it is the Japanese who are setting the pace.

Whether they've been spoiled by a vast domestic market—or distracted by the debt loads of leveraged takeovers—the big U.S. retailers have decided to stay at home. Too bad. Once again, the Japanese have shown how adept they are at moving quickly to take advantage of opportunity. ■



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Rare among American companies, Amway has gotten around Japan's notoriously difficult retail distribution system. Its secret? Selling a dream in a dreamless society.

Soap and hope in Tokyo

By Gale Eisenstodt with Hiroko Katayama

FOR EIGHT YEARS Hiroyuki Hori toiled away in the accounting department of a machinery company in downtown Tokyo. Like most workers caught in Japan's lifetime employment system, Hori pretty much knew what he would be doing and how much he would be earning for the rest of his working days.

But three years ago, at age 31, Hori rebelled. He quit his job and joined his wife selling detergent, cosmetics, vitamins and housewares for Amway. Says Hori with a smile, "I realized I could change my lifestyle."

Hori now works out of his home. Some days he is busy from morning until night; other days he doesn't work at all. Along with the freedom has come a fat paycheck. Hori now makes about $60,000 a year, twice what he used to make at his old job.

Amway's be-your-own-boss pitch may be greeted cynically in the U.S., but in regimented Japan it finds a willing audience, especially among housewives and frustrated salarymen.

Today over 500,000 Japanese belong to Amway's decade-old sales force, making the company one of the largest and most profitable foreign outfits in Japan. Last year Amway (Japan) Ltd. had over $500 million in sales and $164 million in pretax profits. That means Amway (Japan) by itself makes up about a third of Amway's worldwide business.

All this has been a windfall for Richard DeVos, 64, and Jay Van Andel, 66, who founded Amway in Ada, Mich. three decades ago and still own the company. DeVos and Van Andel help attract new salesmen through publications and videotapes that are almost religious in tone. "A charismatic leader is particularly important in Japan," says William Hemmer, who heads Amway (Japan) Ltd.

Dennis Budd Gray

Selling Amway products in Japan
For housewives, a much-appreciated job opportunity.

Amway's salesfolk don't go door-to-door in Japan but work through networks of family and friends. *Giri*—the Japanese notion of obligation—makes it difficult for acquaintances to refuse to buy.

Amway's direct selling approach has proved a wonderful way to circumvent Japan's restrictive and costly distribution system. Until last year Amway never had to spend a dime on advertising. The influence of *kuchikomi*, or word-of-mouth recommendations, enabled Amway to battle Japanese consumer product giants Kao Corp. and Lion Corp., which spend heavily on advertising and get prime spots in crowded retail stores.

Competitors and industry insiders have argued for more than a year that Amway has peaked in Japan. *Giri* sales, they said, would work only once or twice for Amway's costly products. Also, the labor shortage would make it harder to recruit salespeople, they warned. The evidence seemed to support the naysayers' arguments in August 1989, when Amway announced that its sales for the fiscal year had inched up a paltry 2% and pretax profits had fallen 6%.

This year, however, Hemmer managed to turn things around. He is altering Amway's product line to suit Japanese tastes. Some items are being reformulated, others are getting spiffy new packaging. New goods are coming out, too. This year, for example, Amway started selling gourmet coffee; a toothpaste may be introduced soon. Sales are expected to jump over 20%, to at least $600 million.

These days Amway is placing less emphasis on expanding the size of its Japanese sales force and paying more attention to training. "The focus is on increasing the efficiency and productivity of existing distributors and trying to get them to stay on a long-term basis," says Hemmer.

The talk of the retail trade these days is that Amway is planning to sell 50% of its Japanese unit to the public. Hemmer dismisses the idea as rumor. But if the company were to sell a 50% stake, owners DeVos and Van Andel probably could pocket more than $1 billion, given Japan's sky-high price/earnings ratios for common stocks.

The secret of Amway's success where so many other Americans have failed? Understanding human motivation. "There is an American Dream, but really no such thing as a Japanese Dream," says Amway salesman Hori. "There is little chance for success here, but with Amway I see people succeeding all the time." ■

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Ryoei Saito is known in the West chiefly for his buying of high-priced art. In Japan he's best known as a crapshooter, unafraid of expanding during downturns.

Damn the bank, full speed ahead

By Gale Eisenstodt

JAPANESE PAPER AND pulp maverick Ryoei Saito bought van Gogh's "Portrait of Dr. Gachet" and Renoir's "Au Moulin de la Galette" in May for over $160 million. But then Saito has always been a high roller and a tightrope walker. And he still is.

After World War II he led his family's publicly traded paper company, Daishowa Paper Manufacturing Co., Ltd., in a battle royal against Oji Paper, Jujo Paper and Honshu Paper. The latter three were members of the Japanese business establishment. They had been separated from the old Oji Paper, part of the Mitsui Group, when it was broken up after the war. Daishowa was a loner. Under Saito's guidance, Daishowa took them on, cutting prices and grabbing market share in a way the clubby Japanese found unseemly in their home markets. By 1965 Daishowa had become Japan's second-largest paper producer, and it has battled to overtake Oji for the number one spot ever since. Today it is itself a giant, with revenues this year of $2.7 billion. Saito and his family control at least 20% of the shares (estimates run up to 40%). That plus real estate puts the family's net worth at around $1 billion.

At age 74, Ryoei Saito is honorary chairman, and his eldest son, Kiminori, 49, is president, but the company is still run in the same aggressive way. Recent acquisitions of U.S. and Canadian paper plants have strengthened Daishowa's foothold overseas, way ahead of Japanese rivals also seeking manufacturing bases abroad.

What's also unusual is that Daishowa has expanded over the past few years mainly through bank debt

AP/Wide World

Ryoei Saito, Daishowa Paper's honorary chairman
A van Gogh and a Renoir cap years of high rolling.

President Kiminori Saito
Continuing the aggressive ways?

rather than by tapping equity markets, to avoid diluting the family's stake. For the fiscal year ended in March, debt swelled to $3 billion, double what it was three years ago and five times shareholders' equity, in an industry where debt rarely exceeds twice shareholders' equity. This becomes a bit scary, given that the Japanese paper industry is in a slump, caused by overcapacity and the effect of a weak yen on pulp imports. Daishowa's profits dropped 35%, to $35 million, this year, but the situation was worse than it appeared. Only a $114 million boost from profits on the sale of stock from the company's portfolio kept the firm out of the red.

Daishowa survived an earlier slump—but just barely. When the second oil shock hit in 1979, Daishowa was in the midst of a spending binge. It already had operations in the U.S. and Canada. As business declined, Saito had, ignominiously, to cede partial control of Daishowa to Sumitomo Bank, the company's biggest creditor.

Sumitomo found that ambitious spending on paper production wasn't the only problem. Ryoei Saito had put an estimated $1 billion of company money into art, golf courses and the stock market, a favorite hobby of his. Sumitomo forced Saito to sell the art and the golf courses, treasures he had accumulated for the company. Saito was angry but complied.

Saito retaliated in 1983, when the paper market was recovering. He paid back Daishowa's loans to Sumitomo and astounded the Japanese business community by cutting all ties with Sumitomo Bank. That's something not done in Japan, where a secure relationship with a major bank is considered a vital safety net.

Two years later, in another much-too-public scandal for the proper Japanese, Saito fired a brother, Kikuzo, who was then company president. Kikuzo later accused Ryoei, in an interview with Japanese newspapers, of borrowing large sums from Daishowa for personal purchases.

With Sumitomo gone, Daishowa was free to continue its aggressive expansion abroad. Early in 1988 it paid $78 million for the Port Angeles Mill in Washington State. Saito then put another $52 million toward upgrading the mill, which now supplies around 20% of the telephone directory paper in the U.S.

The same year, Daishowa bought the North American assets of Reed International (mainly a newsprint mill in Quebec, which sells its product in Canada and to American newspapers such as the *Washington Post* and

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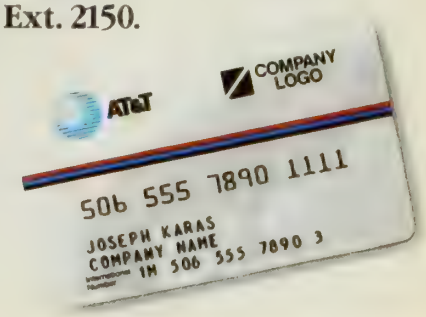

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Matthew McVay Saba

Daishowa operations in Washington State
Forestry sources are dwindling, and it's cheaper to produce abroad.

the *New York Post*) for an estimated $500 million. Earlier this year Daishowa bought a lumber mill from Canadian Forest Products Ltd. to supply a pulp plant in Alberta. "The company is run by one man, so it can move extremely fast," says an envious competitor.

This expansion abroad at a time of financial stringency is typical of Saito. If he can survive the squeeze—as he has survived past squeezes—he will have gained further ground on his rivals. Japan's own forestry resources are dwindling, and the industry is increasingly dependent on imports. High energy costs in Japan make it cheaper to produce abroad.

Will he slow down, maybe sell some assets? "We have no plans to slow down," says Daishowa International Executive Vice President Reijiro Nakakura. The company intends to spend as much as $330 million over the next year on capital investments in Japan. Daishowa is building a new de-inking plant for recycled paper in Canada, and a linerboard facility is planned for Stockton, Calif.

The company will continue to rely heavily on bank borrowings, but it seems clear, too, that Saito is dipping into other family financial resources. Ashitaka Rinsan Kogyo, the family's private holding company, shelled out $49 million in April to buy Daishowa's share of a 23-year-old eucalyptus-chip Australian venture with C. Itoh. The holding company makes some of its money leasing machines to Daishowa. Last year Ashitaka bought 25% of the preferred shares of Daishowa's new Alberta

Dennis Budd Gray

Daishowa's base in Fuji City
Trying to catch up with Oji.

pulp mill. Where is Ashitaka getting the money? The company does not disclose financial information. (The Saitos would not speak with FORBES.) But according to a Japanese corporate research firm, Ashitaka has borrowings of around $300 million, which are guaranteed by Daishowa—a kind of cross-collateralization.

Will Daishowa weather the storm in the paper industry? Saito's suppliers and business partners seem remarkably coolheaded about the debt load, despite the prospect of rising interest rates and higher energy prices, a result of Saddam Hussein's depredations. Faced, not for the first time, with a tight financial situation, Ryoei Saito may gain serenity from gazing at his van Gogh and Renoir. ■

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While lots of people are fighting to keep regional dumps out of their towns, a few municipalities are more than happy to take other people's garbage, for the right price.

Yes, in my backyard

By Ruth Simon

"WE'RE GOOD CAPITALISTS; we realized there was money in garbage," says Fred Darden, administrator of central Virginia's Charles City County (pop. 6,700). Situated midway between Williamsburg and Richmond, the county has been taking in about $5 for each ton of refuse dumped in its landfill. That's more than $1 million a year, enough to cut the county's property taxes nearly 20% and rebuild its ailing school system, too.

There are other benefits. Chambers Development Co., Inc., the Pittsburgh-based firm that operates the Charles City dump, has agreed to pick up the county's garbage for free and pay for environmental monitoring at the dump site.

While most towns howl in protest at the thought of hosting a regional landfill, others are taking Charles City's approach. They have decided it makes sense to accept an environmentally sound landfill, provided they get some economic benefits in return. The main benefit is money, in the form of royalty payments known as "host fees." These are paid by the landfill operator to the host city or county; the operator makes his money by collecting "tipping fees" from neighboring communities that dump their trash in the landfull. The host fees can range from 25 cents a ton to more than $10, depending on the size and location of the landfill, the kind of garbage it accepts, and the community's negotiating skills.

With some landfills in densely populated parts of the country charging tipping fees of $100 a ton or more, rather than the $10 a ton of a few years ago, it's getting easier to charge host fees. A slice of landfill revenues can make a big difference to rural communities like Gilliam County, Ore. (pop. 1,900), which depends on wheat farming and cattle ranching for its livelihood. Last January Waste Management Inc. began hauling garbage to Gilliam from Portland, 150 miles to the west.

Wasn't the not-in-my-backyard syndrome a problem? "Maybe in the whole county there were five families opposed to the landfill," recalls Judge Laura Pryor, who chairs Gilliam County's Board of Commissioners. "In all the hearings, no one testified against the landfill or wrote a letter opposing it."

Why so little opposition? One reason is that Waste Management earned the county's confidence with its handling of a hazardous-waste landfill in Arlington, less than 2 miles from the new site. But the clincher was a host fee that can run as high as $1.25 a ton, depending on volume. The county will get a minimum of $300,000 annually. The money will be split between the county budget, a property tax cut, and efforts to spur additional economic development.

Residents of East Carbon City, Utah were so eager to get a new landfill that James Robertson, then the mayor, made a special trip to the governor's office to speed the proceedings. East Carbon City fell on hard times when U.S. Steel closed its coal mine there in 1982. As employment shrank, so did the city's budget, forcing it to lay off its entire police force. Says Robertson, "We needed something to start revitalizing the city."

Construction in East Carbon City is slated to begin in September on a new 2,400-acre landfill, which will take incinerator ash shipped by rail from the East Coast. The city will get a 50-cent-per-ton host fee, with another 50 cents going to the state and a further 25 cents going to the county. If the landfill meets its goal of 1 million tons of ash per year, the host arrangement could mean 40 jobs and as much as $500,000 in revenues for the hard-pressed town.

The garbage companies forced to pay the host fees don't mind. They see the fees as a small price to pay for avoiding the hassles and legal battles normally associated with setting up a landfill. "It's something the utility companies and the railroads have done for years," says Christopher White, president of Mid-American Waste Systems, which is paying a host fee of nearly $2 per ton at a landfill in Westmoreland County, Pa., just outside Pittsburgh.

But the clearest sign that host fees are here to stay may be a proposal made in July by waste giant Browning-Ferris. After spending three years and more than $3 million on an unsuccessful effort to open a new landfill in upstate New York, Browning-Ferris announced it would provide a package of benefits—including host fees—to any New York community that came forward with a suitable site.

"We see host fees coming into play from now on into the future," says Browning-Ferris Vice President Robert Wasserstrom. "It's a business proposition. We're not unhappy to do it." ■

Chuck Savage

Fred Darden at Charles City landfill
Trash means a 20% tax cut and new schools.

A FRESH LOOK AT INDOOR AIR QUALITY

The problem of indoor air pollution in commercial buildings is coming under greater scrutiny as workers, building owners, government agencies, the media and the medical profession increasingly realize how serious and widespread the problem is. New research is revealing, however, that poor air quality is only part of overall indoor environmental problems.

Following the oil embargo in the 1970s, commercial buildings were designed or renovated to be more tightly sealed for the purpose of decreasing energy use. Windows, for example, could no longer be opened.

While such measures kept the comfortable temperatures inside and uncomfortable temperatures outside, they also trapped air contaminants indoors. With reduced or poor ventilation from outside air, the levels of contaminants such as bacteria, mold spores,

human skin scales, ozone, tobacco particles and formaldehyde (from new building materials and furnishings), increased in the indoor air.

High levels of contaminants can cause flu-like symptoms, fatigue, headaches, and eye and lung irritations among occupants. When 20 percent or more of a building's occupants are plagued by symptoms that taper off or disappear after leaving the building, that building is said to have Sick Building Syndrome (SBS).

A building with SBS has unhealthy and unproductive occupants, and in extreme cases it could lead to broken leases, workman's compensation payments and even lawsuits. The Environmental Protection Agency estimates that illnesses traceable to air-quality problems might affect occupants in more than two million U.S. buildings.

One well-publicized way of handling indoor air quality (IAQ) problems today has been to sample the air, analyze it and then look for the causes of the contaminants.

But Johnson Controls, Inc., a Milwaukee-based manufacturer of commercial temperature and building controls for over 100 years, believes that air testing is not always necessary and, in most cases, should be one of the later steps in the process of finding and solving IAQ problems, rather than the first.

To be successful in its business of providing building automation and productive, comfortable environments, Johnson Controls has had to view the building as a "whole," as a dynamic entity made up of interactive parts. This holistic method is also useful in addressing IAQ concerns.

In more than 130 branch offices throughout North America, Johnson Controls building experts provide a unique combination of knowledge, service and products to help commercial and industrial building owners enhance worker productivity, save energy and, in the meantime, improve the quality of the indoor environment.

JOHNSON CONTROLS

New research is revealing that poor air quality is only part of overall indoor environmental problems.

Proper maintenance procedures, such as changing HVAC filters regularly, reduces organic contaminants trapped in a building.

Improving conditions in a building often requires only a good dose of common sense. In most cases, the first step may be returning the building to peak operating efficiency and comfort levels.

New research shows that building occupants are more likely to be susceptible to health problems if the overall building environmental quality is poor. Aspects of environmental quality include temperature, humidity, lighting, privacy, ergonomics and acoustics in the workspace. It is possible to address IAQ as well as these other indoor environmental qualities without sacrificing energy efficiency.

Many of the problems with IAQ are related to the design or maintenance of a building's heating, ventilating and air conditioning (HVAC)system. Bringing in increased amounts of outdoor air to dilute the levels of indoor air contaminants might seem like an obvious solution, but it may only increase the problem if the building's outside air intake is located over a loading dock, bus stop, alley, in a parking structure or next to the building's air exhaust. Since air intakes and exhausts are not architecturally attractive, they often are placed in these types of out-of-sight locations. The outdoor air there, however, may be worse than the indoor air.

A periodic preventive maintenance program may improve IAQ; it also will likely result in more efficient, more dependable mechanical equipment.

Increased outside air also won't help if the HVAC system itself is contaminated, for example, with fungus growth. One minor example of missed maintenance procedures is dirty HVAC filters which trap and concentrate organic compounds. These in turn feed and spread microbial contaminants through the building's air distribution system.

Fixing design errors and keeping a building's HVAC system running at its peak efficiency can often eliminate IAQ problems. For thousands of building owners throughout the world, the best way to get to that point is through the Johnson Controls Alliance Building Services.

Alliance can eliminate conflicts between energy conservation and indoor air quality. A periodic maintenance program may improve IAQ; it also will likely result in more efficient, more dependable mechanical equipment. The increased efficiency means that maintenance programs often pay for themselves.

Alliance is a flexible program, providing building owners with as much help as they want, ranging from as little as periodic changing of filters, to consultation for a retrofit project, to 24-hour, on-site total facility operations.

Experience, professionalism and dedication to quality has brought Johnson Controls to the enviable position of premier consultant and supplier of facility services including environmental, mechanical and control systems, life/safety systems, complete system diagnostics, upgrades, retrofits, lighting control, service, design, facility operations and management.

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In buildings with open offices, Johnson Controls offers its revolutionary product Personal Environments. Personal Environments provides each worker with an individual desktop controller that allows the adjustment of airflow, temperature, background noise and task lighting at each workstation.

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Farmers & Merchants Bank of Long Beach is something most banks only dream of: ultraconservative and very profitable.

The bank that time passed by

By Ralph King Jr.

AT FIRST GLANCE Farmers & Merchants Bank of Long Beach, in California, seems to be locked in a time warp.

The security system consists partly of a sawed-off 12-gauge shotgun Chairman Gus A. Walker, 91, keeps handy at all times. His son, President Kenneth Walker, 63, works behind a teller's window and lends money from a rolltop desk. Each night the bank's third-highest officer, a senior vice president, personally locks the vault before going home.

But looks are deceiving. With assets of $1.3 billion, the sleepy-looking 83-year-old bank has generated a fortune for the Walker family conservatively estimated at $200 million. They've grown wealthy by providing personal service at low cost and lending only to reliable people in their backyard of south Los Angeles and Orange County.

These are basics of sound banking, and the Walkers have pursued them fanatically since 1907. Plenty of financial institutions have neglected those basics in recent times, growing and lending themselves to the brink of insolvency, and beyond.

Walker's bank boasts financial statements breathtaking to behold. Its 2.1% return on assets is higher than any other independent U.S. bank with assets over $1 billion. The same goes for its 16.4% ratio of capital to assets.

"A banker has a lot of responsibilities," says Gus Walker, who dresses in drab gray suits and keeps two black-and-white photographs of his father, the bank's founder, beside his desk. "Some banks, and those S&Ls, wouldn't be in the shape they're in today if they'd taken their responsibilities more seriously."

Farmers & Merchants is more serious than most. The bank doesn't trust its depositors' savings solely to the Federal Deposit Insurance Corp. Not for a minute. Its deposits are 100% backed by cash and short-term government bonds. It's probably the last bank in America that will ever need a taxpayer bailout.

The bank's attitude toward lending money makes Scrooge seem like a spendthrift. No wooing of would-be borrowers; customers ask for money standing up. When Walker agrees to lend—which isn't often—he takes more collateral than most bankers would. Result: Less than 1% of its assets are nonperforming. Loan growth is not the Walker family's objective; avoiding loan losses is.

But once you're a customer, you're treated like family. Because there's little turnover in the managerial ranks, relationship banking is more than a buzzword. No one needs an appointment to speak to the Walkers. Standard loan fees are routinely waived in hopes that borrowers will become even bigger depositors. If you're a longtime client, you get a big box of fruit each quarter.

One reason many business people no longer feel loyal to their banks is that the banks no longer act loyal to them. Walker doesn't want to call in

Kenneth and Gus Walker of Farmers & Merchants Bank of Long Beach
The strongest bank in the nation?

loans he's made to people he's known for years, especially not during tough economic times. He wants to keep their loyalty and friendship. Which is one reason he keeps such a high capital ratio, nearly three times the current 6% minimum set by federal regulators. In the unlikely event that as much as a third of its loan portfolio goes bad, Farmers & Merchants could still fulfill federal capital requirements without calling loans.

"We would survive another 1930s-type depression, but institutions with less than a 10% capital ratio would not," says Ken Walker, who inherited his father's pale blue eyes, his passion for polo playing and his church-mindedness. In 1989 the bank donated $600,000 to local churches and charities and has made loans over the years to build hundreds of churches, including televangelist Robert Schuller's Crystal Cathedral in Orange County. Thankful congregations produce plenty of loyal depositors.

Overhead is a microscopic 1.7% of assets, roughly half the industry average. The bank owns all but 3 of its 16 branches. Staffing is bare bones, with only 400 employees. In addition to being charged with sealing the headquarters vault each night, a bank senior vice president also goes around to collect the cash trays from the tellers.

While big Japanese banks have pumped millions into gleaming high-rise hotels and office buildings in Long Beach (FORBES, *May 29, 1989*), Farmers & Merchants' contributions to the economy are more nuts and bolts. Take Sun Meat Co., a Placentia, Calif.-based restaurant-meat distributor started by Dennis Bustam in 1983 out of the trunk of his car. Within six months Bustam obtained a $30,000 new truck loan from the bank. The following year he got a $25,000 letter of credit, but only after putting a like amount on deposit. Today, the fast-growing firm's credit is unsecured.

More than anything, what brings people in the door is peace of mind. The bank's bulletproof balance sheet, published semiannually in half-page local newspaper ads, pronounces Farmers & Merchants "the strongest bank in the nation." That strikes a chord among people frightened by reports of failing thrifts and sick commercial banks. "I've been listening on the news about how banks are falling under," says depositor David McCoy, 34. "Not this one."

Until 1981 Charles Patterson, who owns the Orange County Volvo dealership, did all his banking with BankAmerica. "I got concerned about them, and I don't have much faith in the government," he says. So Patterson switched most of his cash accounts and even his mother's trust into Farmers & Merchants. "I would put almost anything I had in there."

Had more of the nation's bankers thought like the Walkers, a lot of fancy high-rise and condo projects wouldn't have been built and many Third World nations would have had to face reality sooner than they did. More to the point, the press and airwaves wouldn't be filled with cries and alarms over the soundness of the nation's banking system. ■

Charles Bayless seems to enjoy cleaning up messes. He has taken on a real beaut in Tucson Electric Power Co.

"I'd be bored"

By Marc Beauchamp

UTILITY COMPANIES are supposed to be widows' stocks, but read this: With Arizona's economy limping, Tucson Electric Power Co. has excess power capacity on its hands and little hope for rapid growth any time soon. The company is saddled with a failed diversification strategy that includes everything from hotels to banking. Last year ($508 million revenues) Tucson Electric posted a loss of $82 million; this year it is expected to lose well over $30 million. Its stock, recently at 12, was over 50 only two years ago (the quarterly dividend was eliminated in January).

Want to hear more? Tucson Electric's relations with the state regulators are abysmal, and angry shareholders have filed class-action suits charging that insiders, including former Chief Executive Einar Greve, dumped stock in early and mid-1989 just before the utility's earnings began to melt down. Greve, 61, who resigned 14 months ago, was already the talk of Tucson for marrying a 25-year-old former topless dancer.

Say this for the company: It most likely has nowhere to go but up. This probably explains why Charles Bayless, 47, agreed in December to leave his post as chief financial officer of Public Service of New Hampshire to join Tucson Electric; he became chief executive in June, and he couldn't be

more different from Greve. Low-key and thoughtful, the son of a West Virginia hardware store owner, Bayless earned an electrical engineering degree from West Virginia Institute of Technology while working part time as a lineman for the local utility. He later picked up a law degree from West Virginia University and an M.B.A. from the University of Michigan.

To show that he is serious about getting costs in line, Bayless took a salary of $300,000 and no bonus, far less than the nearly $1 million Greve took home in 1988.

It has been a busy few months for Bayless. He has raised $116 million in badly needed cash through two debt offerings, and he and Tucson Chief Financial Officer Ira Adler, 39, are working with Swiss Bank Corp. to secure a $350 million credit line.

To help pay down the mounting debt, Adler hopes to scrape up over $200 million by selling all of Tucson Electric's nonutility assets in the next three years. These include a hotel in Woodland Hills, Calif., stock in Tennessee's Union Planters Bank and a 40% stake in California's Foothill Group, an outfit specializing in financing troubled companies.

For Bayless, the toughest part will be persuading state regulators to let him raise rates, in part to cover the cost of the just-completed $830 million, 360-megawatt Springerville Unit 2, a coal-fired plant in northeast Arizona. The project was approved by state regulators before Arizona's economy went soft, but Bayless is convinced the additional power will be needed. He figures rates need to rise 30% to 40% but, wisely, he plans to ask for the increases in a series of single-digit annual rate hikes.

Bayless is convinced that heavy-handed regulators have hamstrung the utility industry. The regulators assume the power companies have a monopoly, which in fact they do not. They increasingly face competition from cogeneration and from independent power producers.

Photographs by Tom Ives

Tucson Electric's Charles Bayless
Will he merge himself out of a job?

"All regulation about rates presumes [utilities] are a monopoly, and we aren't," says Bayless. The regulatory process, he feels, has held up construction of new nuclear and conventional power plants, especially in the Northeast, where he formerly worked. This sets the stage for power shortages in the Nineties, which Bayless has described in detail in a persuasive manuscript entitled "Requiem for an Industry." In it, Bayless draws on thinkers from Plato to economist Joseph Schumpeter to marshal an argument that rate regulation should be abolished.

Tucson Electric's Ira Adler
Selling hotels, banks.

Tucson Electric's hopes are riding on a rebound in the local economy, and there are some signs that the rebound may be under way. One key indicator, the apartment vacancy rate, has fallen in the past year and a half from more than 16% to less than 9%. The region's population continues to grow, albeit at 2.5% a year, versus 4% in the early Eighties. With labor, land and housing readily available and cheap in Arizona, companies from American Airlines to Sears and American Express are moving some back office and telemarketing operations to Tucson.

Still, Bayless knows it will take four to five years for Tucson Electric to grow out of its capacity glut. To bring in cash in the meantime he is aggressively marketing Tucson Electric's surplus power. His electricity—coal-generated and among the cheapest in the Southwest—becomes more attractive to California utilities as oil prices rise.

Chances are, however, that Bayless will be gone before Tucson grows out of its electricity surplus. He probably intends to do in Tucson what he helped do at Public Service of New Hampshire: stop the bleeding and set the stage for the utility's sale. For Tucson Electric, the most likely buyer is PacifiCorp, the acquisitive Portland, Ore.-based utility giant, which snapped up Utah Power & Light last year and is trying to buy the beleagured Phoenix-based Pinnacle West Capital Corp., the parent of Arizona Public Service.

Why would Bayless merge himself out of a good job? Probably because he enjoys putting out fires more than he does running a business. Munching a beef enchilada at Tucson's landmark El Charro Mexican Cafe, he muses, "I enjoy financial workouts. I'd be bored without them." ■

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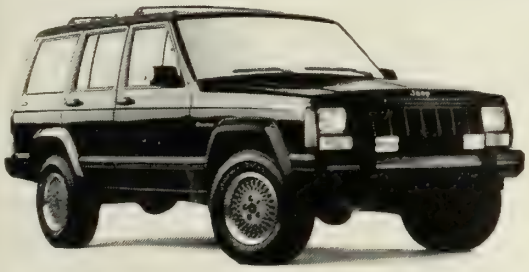

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The southwestern real estate market fell apart years ago. Why did the auditors permit General Homes to delay several years in writing down its assets?

Costly postponement

By Graham Button

In March 1988 investors in General Homes Corp. learned that the Houston-based home builder was marking down the value of its assets, primarily land inventories, by $91 million. Last year came another shocker—a $113 million writedown.

All told, General Homes' losses have exceeded $285 million over the last two years—no small feat for a company that earned $19 million in 1983. Its stock, which traded as high as 21¼, was selling at ⅜ before trading was suspended in April.

What's going on here? Did the assets really decline by almost 40% in just two years? Or should some of those writedowns have come earlier? After all, the Texas real estate market hit bottom in 1987, and yet the company's total chargeoffs between 1984 and 1987 were a mere $8 million.

Was General Homes management deliberately withholding bad news?

Yes it was, according to a class action suit filed in Dallas federal court last year on behalf of the company's bondholders. On top of that, management must now contend with street-fighting bondmailer Stanford N. Phelps (Forbes, *Aug. 6*), who is seeking to force the company into bankruptcy after being refused two board seats.

At issue in the bondholder suit is the use of the concept of net realizable value: the estimated sale price of a piece of real estate, less the estimated costs of completion and disposal.

The Financial Accounting Standards Board, the profession's rule-making body, says that if you hold real estate for sale or development, you've got to value it at the lower of cost or net realizable value.

An alternative valuation method kicks in when market conditions erode to the point where development is no longer feasible, or when the company doesn't have the money to develop the property. Here, the FASB says you've got to carry the property at the lower of cost or fair market value. In these cases, fair market—or liquidation—value can be significantly lower than cost. And the resulting writeoffs can be substantial.

When General Homes should have owned up to the market realities is at the heart of the bondholder action. Until March 1988 General Homes had carried virtually all its land at the lower of cost or net realizable value, insisting it would develop it all even though real estate in its area was in a tailspin. Most of the land was in Houston and Dallas—markets that were economically devastated.

Finally, in March 1988, the company changed its accounting method on many of its troubled properties from the "lower of cost or net realizable value" to the "lower of cost or fair market"—resulting in the $91 million hit. It made the same switch last year on just about all of its remaining properties—writing off another $113 million and finally acknowledging that development was impossible.

Given the market context and the fact that General Homes had had negative cash flow since autumn 1986, bondholders argue that General Homes should have made that admission years earlier and that assets and earnings were way overstated in 1986 and 1987. Which in turn kept the company from running afoul of its revolving credit agreement.

Did insiders know that General Homes was a disaster waiting to happen long before individual shareholders knew?

One clue surfaced in July 1987, when Montgomery, Ala.-based Kinder-Care, Inc. agreed to buy American Savings & Loan Association (ASLA) of Florida for $145 million. The thrift owned about 43% of General Homes' common shares.

In figuring what to pay for the thrift, Kinder-Care assumed that the General Homes stock was worthless—even though at the time it had a market value of almost $40 million. By the end of the year Kinder-Care had written the stock down to zero.

How does General Homes' auditor, Arthur Andersen, also a defendant, respond? In court papers, Wilber Armatta, the accountant responsible for General Homes from 1983 to August 1987, insists everything was done in accordance with generally accepted accounting principles.

But internal Andersen memos in the court records indicate that the auditors were worried about how to value the properties and felt General Homes' projections of cash flow and home sales were "optimistic." In one memo Armatta wrote that "the NRV [net realizable value] problem casts a shadow on 1986 earnings," because General Homes "still had a lot of property in Houston . . . an economically depressed area."

Yet until March 1988 Arthur Andersen repeatedly backed management on the property valuation question. It was certainly well paid for its amiable attitude: $350,000 a year.

When to impose specific accounting rules is always a judgment call, and this is no exception. But the bottom line is that stock- and bondholders were lulled into a sense of false security by the auditor's failure to insist on earlier writeoffs. And they paid dearly for that false security. ■

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The capitalist revolution is spreading. There are signs it is reaching the Caribbean islands. At three tiny stock exchanges down there, price/earnings ratios look enticing.

Sun-drenched capital

By Patrice Duggan

As a leftist, America-baiting politician in the 1970s, Jamaica's Prime Minister Michael Manley promised to dismantle Jamaican capitalism "brick by brick." Not that there was much to dismantle, but his efforts to turn Jamaica into another Cuba destroyed what little economic growth the poor island had been enjoying. Last year Manley, now a convert to capitalism, stood before a dozen Caribbean heads of state and told them that what the Caribbean needed was a regional stock market. All 12 listeners nodded agreement.

After years of talking vaguely about regional integration, Caribbean politicians are finally moving. "With Europe's 1992, with Asian countries joining together and with the U.S.-Canadian trade pact, people here feel that we need to integrate and make our economy stronger," says Fernando Deperalto, deputy governor of the Bank of Jamaica.

These are tiny, precarious economies, heavily dependent on sun-seeking tourists and exports of a few raw materials. In an effort to muster capital, three islands have organized stock exchanges over the past 20 years—Jamaica, Barbados and Trinidad. And now they are trying to combine forces. In fact, the Caribbean Common Market, an organization of 13 English-speaking countries in the Caribbean, puts a unified stock market high on its list of objectives.

The first step will be to make it easier for investors from the 13 participating countries to buy stock on any of the region's three exchanges. The hope is that unified trading will help attract investors from outside the Caribbean. But first cumbersome licensing and registration procedures need to be eliminated. In Barbados, for example, nonresidents need to get prior approval from the exchange before every trade, making it virtually impossible to actively manage funds.

And island stock markets are backward. In Barbados the general manager of the stock exchange, Anthony Johnson, answered his own phone when Forbes called for an interview. "We trade Tuesdays and Fridays," Johnson explained. "If it takes an hour, so be it."

The Barbados exchange is the Caribbean's newest, having opened in June 1987. It is also the smallest, with only 14 listed companies. Its market capitalization is about $300 million, up barely 1% this year.

Jamaica has the region's oldest and largest exchange. Founded in 1969, it has a total value of nearly $1 billion. Its larger listed companies include Bank of Nova Scotia Jamaica and Grace Kennedy, a conglomerate with interests in shipping and poultry production. Like many small exchanges, the Jamaican market has seen glorious rises and devastating falls. Between 1984 and 1987 Jamaica's stock index rose 700%. Then, after New York's 1987 crash, the index tumbled by a third, to its 1988 low. Since then, Jamaican stocks have rebounded to 15% above their 1987 high.

Brian Smith

Jamaica's stock exchange
Glorious rises, devastating drops.

Forbidden fruit?

Caribbean stocks are cheap by so measures. So far, restrictive rules high fees have kept U.S. investors

Company	Indust
JAMAICA	
Bank of Nova Scotia Jamaica	bankir
Carreras Group	tobacc
Grace Kennedy	conglo
Life of Jamaica	insura
TRINIDAD AND TOBAGO†	
McEnearny Alstons	conglo
West Indian Tobacco	tobacc
Angostura Holdings	bitters
Bank of Nova Scotia Trinidad	bankir
BARBADOS	
Barbados Light & Power	utility
Barbados Telephone	telecor

*All P/E ratios are based on trailing 12-month e ings. †As of July 27, before the coup attempt.

The average price/earnings ratio in Jamaica is still a relatively cheap 6.5. As you might expect, P/E ratios are generally lower on the Caribbean's smaller, lesser-known stocks than on its biggest issues. The low prices and the potential for growth have some people thinking the Caribbean stock markets are at a ground floor stage. One such is David Gill, a former World Bank official who is now a trustee at Batterymarch Financial Management in Boston. Gill points out that price/earnings ratios on Caribbean stocks are less than half the world average. He is helping Batterymarch launch a private placement fund for buying stocks in Barbados, Trinidad, Jamaica and other developing countries.

"These countries speak English, have a good institutional structure, good commercial banks, insurance companies and brokerage houses very similar to Anglo-Saxon systems," says Gill. "It's not like dealing with a country in the Middle East, where the markets are bigger but no one understands the accounting principles."

The coup attempt in late July in Trinidad certainly damaged investor confidence in that island nation and its minuscule $400 million stock market. But the coup was decisively put down and the rebels attracted little popular support.

A Caribbean island may sound like an exotic setting for a stock market, but one could have said the same thing about Hong Kong or Thailand or Chile a decade ago. ■

ould change soon. Below, a g of some of the larger issues egion.

Recent price	P/E*	Market cap ($mil)
$1.21	9.1	$147.6
1.15	9.4	69.8
1.13	4.4	47.2
9.00	11.3	35.8
0.68	9.7	54.9
1.35	10.1	47.4
0.89	14.0	47.1
1.11	9.6	44.3
2.80	6.7	39.0
1.58	3.7	23.0

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Forbes Capitalist Tool®

There is something partly unnatural about the fast track. Even success on it leaves one feeling removed from life.

YOU CAN GO HOME AGAIN

By Michael Novak

In media lore, all trends are set on the two coasts, and in the heartland no trends are set at all. In this view, the map of the U.S. shows a very large Manhattan and a glittering Hollywood connected by United Airlines. The American Midwest? It's "yesteryear."

Not anymore. Get ready for the first shock of the Nineties: The new trendsetter is the heartland. The symbolmakers are fleeing from the cynical cities of the East and West coasts, and seeking sturdier soils in which to sink roots. The whole country is turning inward. "The uncluttered, unbridled lives of midwesterners will become the envy of the nation by the next century," says the trend-watching, consulting firm Brainreserve. "To live on the coasts used to be the aspiration, but not any longer. Everything that everybody wants—big family, good food, regular people, nothing hyped up—is all in the Midwest. Mom foods like meatloaf are gaining in popularity. The greed weed has burned out and everyone wants things like yard space, the ability to be outdoors."

They're right. Burned-out fast-trackers now seek what the small towns of the Midwest have never abandoned: basic values, family strength, the smell of homemade apple pie, oxygen so rich it makes one's lungs jump and quiver like a colt's flank, and a golf course ten minutes from home. (In Cresco, Iowa, where I spent a week recently, people drive to the links right after work for a quick round before dinner.) Watching the sun set over the ninth hole beats watching it set over a line of cars ahead.

Many fast-trackers on both coasts are now asking themselves, "Why?" There is something partly unnatural about the fast track. Even success on it leaves one feeling like a cut plant, removed from nature and family and life.

Of the top ten cities (according to movers' associations) that Americans today are moving into, three-fourths boast a midwestern lifestyle, from Harrisburg and Tulsa on the outer edges to Milwaukee, Indianapolis and other cities at the nation's inner core. Why? The heartland's cities have splendid parks, plus something else.

The small-town Midwest still has time for fathers to go shooting with their sons and snowmobiling with their daughters. Fishing and canoeing are part of growing up. Young fellows resurrect old cars from demolition derbies at the fairgrounds. Practically everybody knows how to fix things. Many things people use they make themselves.

So potent is this longing for basics that *Food and Wine* magazine last year devoted a cover to a homemade meatloaf and mashed potatoes. *House Beautiful* recently ran a special section on midwestern cuisine. Editor Tom Benson's magazine, *Midwest Living*, reports a new circulation of 650,000, up from 400,000 three years ago.

Editor Benson cites the rise of what Yankelovich pollsters call "neotraditionalism," the return to favor of such values as home, family, church and the work ethic, this time by choice rather than merely by inheritance. Here, Yankelovich says, the Midwest is the nation's leader.

Family is in. Home cooking is in. Sewing is in. Religion is in. Living close to nature—not the ecologist's nature, but the real, lived-in, man-befriended nature—is in.

In turning to the Midwest, the nation is not so much turning to geography as to a state of mind. In the Midwest people believe strongly in family values, for instance, but they do not romanticize the family. They know that family life is hard. In a small town everybody knows everybody and everybody's problems. Old folks are ornery and stubborn; so are young folks. One person's moodiness makes everybody suffer. That goes with family.

Indeed, family life is a major source of midwestern realism. On the two coasts, people often live far away from family and carefully choose their dinner guests for mutual compatibility; at dinner in Iowa or Kansas, there is no way to hide from a brother's religious views, a sister's politics or an uncle's views on women. There's more real pluralism at a midwestern holiday dinner table than at the most polyglot coastal party. People don't exactly choose their families; destiny brings them together. This is what real family means—not a glossy ideal, but plain human acceptance.

The Midwest is also a place where it's good to do things as they have always been done (only better and in a new way, keeping the rules). It is a place where people genuinely believe that their ancestors were at least as smart as they are, maybe smarter. This is the primal conservative impulse, which explains why the conservative impulse is also in.

In this trend toward the Midwest, more is gained than lost. The three-decade record of coastal trendsetters, East and West, isn't especially admirable. ■

Philosopher, journalist and ex-U.S. ambassador Michael Novak directs social and political studies at the American Enterprise Institute in Washington, D.C. His book The Spirit of Democratic Capitalism *has been widely translated around the world.*

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Survivors

Can a small family company survive in a business dominated by giants? Little Malt-O-Meal not only survived but is giving its big competitors pricing fits as well.

Your taste buds won't know, your pocketbook will

By John Harris

REMEMBER Malt-O-Meal? Along with oatmeal and Cream of Wheat, this mushy blend of wheat and toasted malt was a hot item in the 1930s and 1940s, long before cereal shelves were clogged with sugar-coated flakes, tons of shredded wheat and endless oat bran.

But times change. Marketing muscle and product innovation are what's needed these days to survive in the $7.7 billion industry where giants like Kellogg, General Mills and Quaker Oats dominate the shelves. Only a handful of regional and independent cereal companies remain in a business in which a new product introduction can easily cost $15 million.

Yet Malt-O-Meal Co. has become a classic example of how a tiny company can survive and prosper in an industry of giants. Its strategy: Don't fight 'em; copy 'em.

After treading water for decades, privately held Malt-O-Meal has become a totally reformulated company. Though it still makes hot cereal, management has bet the future on low-cost, high-margin clones of the biggest-selling cold cereals.

Malt-O-Meal's Toasty O's, for instance, look and taste like America's top-selling cereal, General Mills' Cheerios. Kellogg markets Fruit Loops, which are rings of fruit-flavored cereal; Malt-O-Meal's imitator is Tootie Fruities. Crisp 'n Crackling Rice is a copy of Kellogg's Rice Krispies. There are four others, including Puffed Rice and Puffed Wheat.

Paul Shattuck.com

Malt-O-Meal's John Lettmann
Sending in the clones.

The cereals are all no-frills—no decoder rings inside, few coupons, no TV ads. But Malt-O-Meal saves consumers big money. Its bags—not boxes—of cereal are typically priced at about half of what the big brands cost. At the Sentry grocery store in Port Washington, Wis., for instance, a 6-ounce box of Quaker's Puffed Rice sells for $1.63; Malt-O-Meal's 6-ounce bag of Puffed Rice goes for 80 cents.

"Have you bought a box of cereal lately?" asks a buyer for one midwestern grocery store. "The prices are out of sight; some are over $4 a box. Moms are saying, 'I'll try this Malt-O-Meal stuff and see if the kids like it.' "

Apparently they do. Malt-O-Meal's sales boomed 18% last year, to $94 million. Profits grew to an estimated $4 million. Hot cereals currently make up only about 25% of sales, and are struggling to hold their own. John Lettmann, 48, the company's president, figures the knockoff lines and its house brand cereals, which Malt-O-Meal makes for chains such as Safeway and Jewel, will help make Malt-O-Meal a $200 million company within five years.

None of this has come easily—or quickly. Minneapolis miller John Campbell first produced Malt-O-Meal 71 years ago. The family saw no reason to change a winning recipe, so it took 42 years to introduce the second Malt-O-Meal flavor, chocolate. And while instant hot cereals have been a standard for decades, Malt-O-Meal's instant brand, introduced only in 1987, hasn't caught on. It will be pulled from the shelves this fall.

Malt-O-Meal management hasn't changed much either. John Campbell's widow, Isabel, now in her 90s, and several children and grandchildren still own the company. Lettmann, a 19-year veteran of Malt-O-Meal, is only the third president in the company's history.

By the 1970s basic inertia had made Malt-O-Meal a bit stale. It was a mere cipher in hot cereal sales, holding less than 3% of the market to Quaker Oats' 64% share, built around a multitude of oatmeals.

How to make the company grow? Lettmann and

V I S I O N

You have asked yourself a single question: what is your vision, the ideology that is the soul of your work? And you find that determining the answer is as enlightening as the answer itself.

Put to the same question, an artist may say that he conveys the truth of a given subject, as he sees it. The image in his mind's eye is shaped and colored by experience, by hope, by the knowledge of what can be.

So too, you must approach the creation of a 401(k) program. You help a client distill truths about their goals, and then you interpret those goals in a custom program. In many ways, your client entrusts you with their hope, their vision of the future.

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And you come to realize that a little of each relationship rubs off and stays with you. Over time, that collection of dreams is what forms a substantial vision of your own.

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then-president Glenn Brooks had a simple but brilliant idea. Malt-O-Meal would get back to what cereals were in the first place—inexpensive and reasonably nutritious meals.

"As cereal prices went up, we realized there was an opportunity for a value-priced product," says Lettmann, who worked for General Mills before coming to Malt-O-Meal. Since ingredients typically represent only about 10% of a cereal's retail price, without heavy advertising, superstar endorsers and fancy packaging, Malt-O-Meal can typically offer grocers margins of 15% to 20%—compared with the 12% they get for big brand names—and still greatly undercut the big fellows in price.

Malt-O-Meal already had some basic experience in the business. Since the 1960s it had been making puffed rice and puffed wheat cereals at its Northfield, Minn. plant. By 1975 it had added a Cheerios clone and was producing house-brand cereals for chains like Kroger and Super Valu.

In order to win shelf space for its own brands, Malt-O-Meal has injected some pizzazz into its previously mushy marketing. Donald Horen, who handles Malt-O-Meal products for Milwaukee grocery broker Otto L. Kuehn Co., says Malt-O-Meal has actually indulged in newspaper advertising—previously taboo—and that it occasionally dabbles in local, limited couponning. Horen notes that he used to hear from Malt-O-Meal only occasionally; now he gets calls every week. "They really bug me now," he says.

Scott Witte

New competition on cereal row
Malt-O-Meal takes on the biggies.

Malt-O-Meal's sharply focused print advertising plays up the price theme. One ad that appears in women's magazines shows a bag of Malt-O-Meal's Sugar Puffs, at $2.03, next to a $3.16 box of Sugar Crisp. "You may not be able to tell the difference in your bowl, but we're sure you'll be able to tell the difference at the cash register," says the text.

New knockoffs are expected next year, possibly including a version of Apple Cinnamon Cheerios, and Lettmann is mulling new bag sizes. The company, traditionally a west-of-the-Mississippi brand, is moving eastward and hopes to achieve national distribution of its branded cereals within the next few years.

Quaker Oats, through its Stokely Van Camp subsidiary, sells a small line of cut-rate bagged cereals. But it's not widely distributed, and at this point doesn't appear to be a major competitive problem for more experienced Malt-O-Meal.

Meanwhile, plenty of suitors want to gobble up the revitalized Campbell family business. But Lettmann says the widow Campbell and her children won't consider it. "I write a lot of 'thank you, but no thank you' letters," he says. "We want to stay a private company." Which is why, after its midcourse correction, Malt-O-Meal will probably continue to be a survivor. ■

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And how does Ford envision the *future* in big trucks?

We see rigs with one smooth line between tractor and trailer.

Ford TRUCKS

Trend Spotters

Irwin Mautner was an accountant who wanted to run his own business. Sitting in a class one day, he was hit by an idea that would make his fortune.

"I hated being an accountant"

By Ignatius Chithelen

EVER FIND YOURSELF thinking, "Hey, I can do this better myself. Moreover, I can make some money at it"?

That's what happened in 1959 to Irwin Mautner, then an ambitious 25-year-old accountant at Eastman, Dillon Union Securities, the New York brokerage firm now part of PaineWebber. His boss had suggested that Mautner enroll in a computer programming course to help advance his career.

Halfway through the five-month program, it happened: major light bulb. "I realized there were hundreds like me who needed the same training," Mautner recalls. "But there were not a lot of schools around. You learned programming from the vendors like IBM or Honeywell."

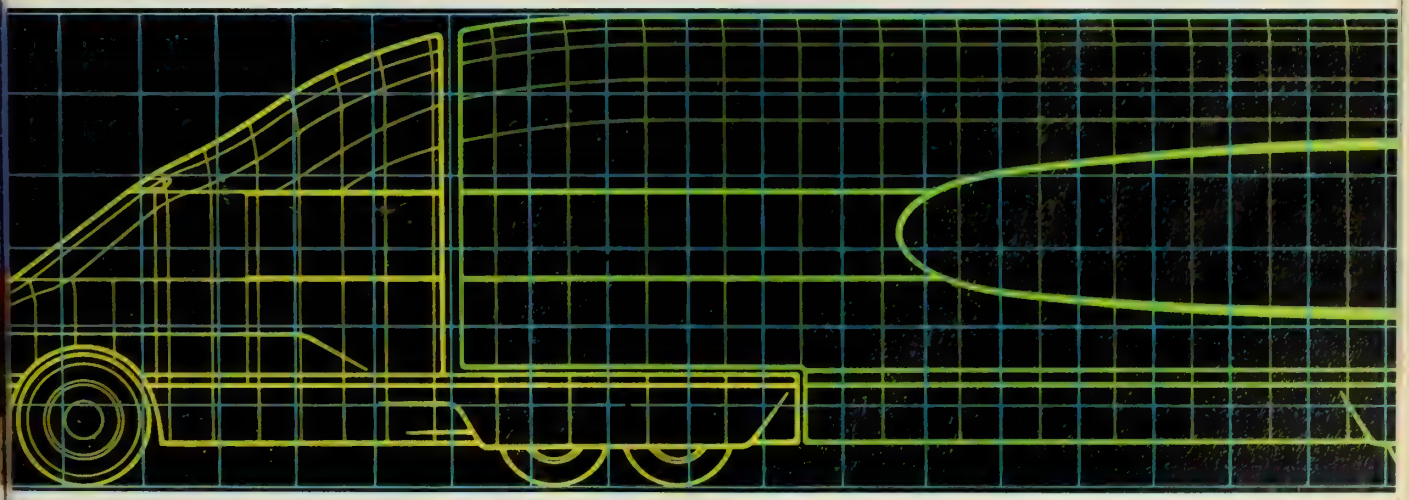
Mautner convinced his programming instructor to join him, and started a training school. Each invested $1,000, and Mautner's wife borrowed $1,000 from Chase Manhattan. Six months later he quit Eastman, Dillon. "Everything fell into place," he says. "I had a trained guy to work with, and it didn't take that much capital." Besides, he says, "I hated the idea of being an accountant. For me, accounting courses were simply an aid to running a business."

The first school started with 1,000 square feet of rented space in midtown Manhattan. Today, Greenwich, Conn.-based Programming & Systems, Inc. runs 12 schools in eight states and trains over 3,500 students each year. The full- and part-time courses vary from six months to a year and include computer programming, data entry, word processing and secretarial skills.

Nearly all of Programming's students, mostly low-income, receive federal and state grants and loans to cover their tuition costs, which range from $5,445 to $6,200 per course.

As Mautner learned, vocational

and Tomorrow's.



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schools are pretty easy to start, so it's not surprising he has lots of competitors. But overly ambitious expansion plans have hurt many of them, particularly the bigger ones. The nation's largest technical training company, for example, Irvine, Calif.-based National Education, had 1989 revenues of $400 million but lost $29 million and has $137 million in debt. Career-Com Corp., based in Lamoyne, Pa., lost $7.5 million last year on revenues of $138 million. And New York-based Wilfred American is in bankruptcy.

Yet last year Programming & Systems earned $3 million on revenues of $30 million. Its earnings have been up 20% a year over the past decade. There's no debt.

What makes Programming & Systems so successful when so many of its imitators are foundering? Old-fashioned attention to the details and a fanatical dedication to efficiency. Having started poor, Chairman Mautner, now 56, knew the value of a quarter. The son of a shipping clerk, and a graduate of the City University of New York, Mautner can best be characterized as a likable but shrewd shopkeeper. "I've always had an entrepreneurial streak," says he. Growing up in the Bronx, he started delivering newspapers at the age of 12 and sold buttons and pennants outside Yankee Stadium and Columbia University's football field. He soon had four other kids working for him.

Selling pennants, he never carried too much inventory and never hired more kids than he needed to help—prudent techniques he's used ever since. Mautner closely monitors the expenses of each school, poring over detailed weekly statements and matching staffing needs to demand. "I watch all the money that is coming in and going out," he says.

New schools are opened only after extensive market research involving local demographics and hiring needs. To motivate his managers, Mautner pays them a share of the school's profits in addition to a base salary. The more profitable the school, the greater percentage the manager receives. If a school isn't making money, Mautner shuts it down—no holding on, hoping—as he did last year with the Rochester, N.Y. facility.

Overhead is minimal, facilities spare. The biggest school, which handles 700 students in Manhattan, is certainly no Trump Tower. It's in an old, run-down building just south of Times Square. Formica tables, chairs with plastic seats, and cheap beige carpeting are the main decorating features. Inexpensive prints of sports cars, "picked out by one of the bookkeepers," says Mautner, adorn the main conference room. "I don't know anything about fancy cars," he says. "We got the prints cheap from a discount store ten years ago."

Mautner keeps a particularly close watch on wage costs, which account for over a third of Programming's overhead. For an average $20 an hour, he employs nonunion teachers, roughly 40% of whom work part time. Last year, in anticipation of some changes in government regulations that would cut loans for students—thereby decreasing enrollments—Mautner trimmed his teaching staff by 12%, to 268, from 305.

About the most daring thing Mautner has done is to put slightly less than a third of the company's $11 million in cash to work as short-term loans for local property developers. This earns him 13% to 15%, compared with the 8% he gets from short-term cash investments. But even here Mautner is cautious. "We never lend money unless the collateral is at least twice the value of the loan," he says.

Mautner hopes to benefit indirectly from a new federal regulation for reducing student loan defaults he thinks will further strain the finances of many of his small- and medium-size competitors: Students used to get the full amount of their loans almost immediately after enrolling. Now they get half after 30 days and the rest midway through the course.

Financially strapped schools that have to carry their payroll and other costs until those loans come in may get pinched. Moreover, schools with student loan default rates of 30% or more can't secure supplemental loans for their students. "We'll be one of the survivors, because we have enough cash and our student loan default rate is only 11%," Mautner says.

Because he expanded slowly and carefully, Mautner avoided some of the equity dilution that afflicts so many ambitious entrepreneurs. His partner was bought out in 1961 for $6,000 before the firm went public. The following year he raised additional capital by selling 33% of the stock to the public for about $120,000. He still owns 25%, worth roughly $8.6 million at the recent over-the-counter price of 16; that's 10 times fiscal 1990 earnings. His public shareholders have done well, too: Programming's stock is up sixtyfold since it went public.

Mautner draws an $820,000 salary and bonus, but he scarcely lives like a rich man. His home in tony Greenwich is a relatively modest four-bedroom. No fancy cars or boats. His elder son joined him in running the company two years ago, after becoming a CPA. Which would suggest that some of the prudent, no-nonsense policies Mautner brought to the company over 30 years ago will continue for at least another generation. ■

Michael Peters

Programming & Systems' Irwin Mautner
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Edited by Joshua Levine

Can you put excitement into something as dull as selling tires? Don Carr and Phil Lansdale did, and got rich in the process.

Welcome, ladies

By Ellen Paris

LET'S FACE IT: Selling tires is usually pretty dull stuff. But not if you're Donald Carr.

Carr, 53, is chief executive of Irvine, Calif.-based 4day Tire Stores, which he founded in 1969 with his late partner, Phil Lansdale, a California adman. They took a staid commodity business, injected some marketing pizzazz and inspired cost-control moves. Today 4day has 54 stores in southern California, Tucson, Dallas/Fort Worth, Kansas City and Seattle, and rings up sales of close to $130 million a year. Not bad in the highly fragmented $10 billion U.S. replacement passenger tire market. Better still, 4day boasts margins of close to 2%—far above the industry average of 1.4%. The privately held company is worth an estimated $50-million-plus.

Carr's secret is that he takes 4day's name quite literally: 4day is open only Wednesday through Saturday. From a marketing standpoint, says Carr, the reduced schedule sets him apart from his competition. Moreover, the four-day week saves on overhead by cutting labor costs. Most tire stores stay open Monday through Saturday and work their employees 50 to 60 hours a week. 4day's staff usually works around 40 hours.

But doesn't the truncated week shave sales? Not a bit. Almost no one takes a sudden notion to rush out and drop an average of $250 for a new set of tires, so 4day rarely loses impulse buyers when it's closed.

The short week is only one of a string of Carr's insights. Back in the Sixties, Carr was running a small chain of tire stores around Los Angeles. That's where he teamed up with Lansdale, who owned the advertising firm that handled Carr's account. Between them they could scrounge up only $50,000 each—but they sensed big changes coming in the tire market, which back then was mostly old bias-ply tires bought almost entirely by males.

Recalls Carr: "The tire industry was pretty stodgy. It was run by a lot of not very bright guys who sat around in Akron and told each other everything was wonderful. They didn't recognize that Michelin and others were lurking offshore, waiting to eat their lunch. Which is what happened."

Mark Richards Sipa

4day Tire's Don Carr
Shorter weeks, fatter margins.

Akron may not have recognized the coming of the radial tire revolution, but Carr and Lansdale did. Looking around them in prosperous, car-crazed southern California, Carr and Lansdale zeroed in on drivers of flashy cars like Cadillacs and Mercedes and stocked up on the new, more expensive imported radials.

Shrewd move. At the time, radials accounted for almost none of the market. Today, they're 99% of the replacement tire business. 4day also stocked tires other dealers didn't carry. One example: the 10-inch tires for Honda's early models. Says Floyd Ewton, the company's chief financial officer: "[Honda] owners would go to a tire store and get laughed at and told to go to the lawn mower shop. We stocked those babies."

Another innovation was 4day's pursuit of women buyers, many of whom are full-blown autophobes. Carr posted the prices of his tires, still a rare practice in the industry, in an effort to demystify the buying process for women. And instead of burying his ads in the sports sections of newspapers, largely a male preserve, Carr and his partner insisted on placing them up front, in the news sections, where readers of both sexes would see them. The ads are short on car jargon and long on witty, informative discussions of tire arcana. One recent ad discussing the outmoded use of zinc oxide as a tire-toughening agent explained, "Tires, like bread, used to be white after they were cooked." Women responded to this approach; today they represent over one-third of 4day's retail business.

Although 4day's tire installers work four days, store managers work five days. On Tuesdays they work as wholesalers, selling to service stations and other independent tire dealers. Wholesaling accounts for 50% of 4day's overall sales. The added volume gives Carr the leverage to negotiate lower prices from his manufacturers. So 4day's prices run about 10% lower than those of local competitors on just about everything he carries. "We tell the little [retailing] guy, 'Let us stock the tires for you.' " Which works out fine for people like Roger Rosenberg, who owns two small tire stores in Anaheim and Brea, near Disneyland. Says Rosenberg: "It's cheaper for me to buy from 4day than to go to a manufacturer."

Not the least of Carr's successful formula is an attitude toward customer service that sets him apart from your typical tire dealer, who tends to roll his merchandise out the door and forget about it. One Los Angeles attorney punctured a tire he had recently bought from 4day when he accidentally ran over a sprinkler head on the edge of his driveway. Hardly 4day's fault, but Carr replaced the tire for free anyway. And probably won a lifelong customer in the bargain. Nothing mystifying about that. ■

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A340

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Computers/ Communications

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0 to 60 in 2 milliseconds

Michael L. Abramson

Computer evaluator Neal Nelson
"Computer vendors lie, and lie a lot."

By Steve Weiner

SEARS, ROEBUCK & Co.'s computer d vision figured it had all the hardwa and software it needed to handle th big bulge of business for the Discov credit card last Christmas. Its systen built around two IBM mainframe was supposed to issue or deny up t 160,000 credit authorizations a hour, with a response time of two t four seconds. Longer than that an customers get impatient; much lon er than that and the system probabl crashes, which means no one can us Discover to buy anything.

How do you test such a system i advance of putting it into use? Sho of hiring everyone attending the Ros Bowl game to pound terminals, the is no foolproof way. But Sears Tech nology Services, the computer div sion, tested it with a procedure that, popularized, could save companies lot of grief. It's called "remote term nal emulation" and it amounts to es tablishing a system's performance b programming a computer to preten right down to coffee breaks and think ing time, that it's your office, you staff and your applications.

Gary Weis, senior vice president c Sears Technology, used an IBM simu lation program, called Teleprocessin Network Simulator, to act lik Christmas plus 50%—as if thousand of merchants at 100,000 remote te minals were bombarding the syster with more than 220,000 requests a hour. It's a good thing, too. At 150,00 transactions an hour, well below sup posed capacity, the system began t crawl. Among other things, say Weis, Sears discovered subtle pro gramming errors that ruined the syn chronization of its two computers The software was rewritten, and as result, Weis says, Discover had n serious problems at Christmas.

Says Max Martin, whose Dallas based software development firm Argo Data Resource Corp., uses simi lar testing techniques: "This sort c test is mandatory for mission-critica software. I wouldn't want to thin about not having it."

Surprisingly, only a handful of com puter buyers, many of them govern ment agencies, actually perform suc tests. Among buyers of midrange sys tems, suitable for up to several hun dred users, fewer than 1% benchmar their computers using simulations estimates Kenneth MacMorran, man ager of IBM's performance laboratorie in Dallas.

Why don't they test? It's expensive for one thing. Simple tests can cos $15,000 to $20,000 just to license th

oftware; complex evaluations can ake weeks or months and cost hunreds of thousands of dollars.

Companies that are already locked into a brand of equipment or operating system tend simply to add capacity when the system slows down, and sk few questions. Lots of companies on't really care about getting maximum performance from a given system as much as they do about price nd support. So they accept models or ducated guesses in place of actual st results.

But two factors suggest that educated estimating will come out right less ften than it used to. For one thing, ystems have become vastly more omplex. Dean Witter Reynolds, the ears brokerage subsidiary, uses 2,500 fferent programs each day. Computers are now often linked into layers of mote networks that no rule of umb can cover.

Second, the open architecture of the opular Unix operating system means at companies are now mixing and atching brands. Who knows if that uspex network server works best ith a DECstation 3100 or an IBM OWERstation?

Simple benchmarks, which measure how well a machine performs andard tasks under increasing workloads, have been around for years. The "Business Benchmarks," from Neal Nelson, a Chicago computer evaluator, consist of 18 tests that measure how well a machine performs such functions as word processing, database management, accounting, programming and computer-aided design. Though inexpensive, at $96 a report, the benchmarks can show startling performance disparities. Example: the Compaq SystemPro, a fast, dual-processor computer priced in Nelson's test at about $44,000, ran from 1½ to as much as 11 times faster than a $193,000 VAX 6000 Model 310 in most exercises with 40 users on the system.

Terry Parke

Paul Chou of Performance Awareness
"We try to keep everyone honest."

"Computer vendors lie, and lie a lot," says Nelson. "They tweak and tune, then march a customer in and everything flashes and dances. The customer never knows if this is normal or even if everything they expected is all there."

Performance Awareness Corp., a Raleigh, N.C. evaluation company, sells a sophisticated remote terminal emulator that's used by a number of computer companies, including IBM and Amdahl, to test and configure Unix systems. The company says its software can duplicate and measure the performance of a system running four applications with more than 1,000 users, accurate to a millisecond. "We are like a consumer reporter—we try to keep everyone honest," says Paul Chou, president. Example: A Performance Awareness test showed that a proposed $320,000 network of personal computers was a likely disaster for the user. If all 16 users ran complex database commands, the average response time slowed to an agonizing 48 seconds.

Conclusion? Investigate before you invest in a computer system. ■

ome people hate them, but computers frequently make better switchboard operators ban humans. They also make a nice business for Aspect Telecommunications.

Telephone telepathy

By Kathleen K. Wiegner

THANK YOU FOR CALLING the Excellent Catalog Co. If you are calling about a previous order, ease press 1. If you are calling to ace a new order or to ask about a oduct, please press 2. If the only rpose of your call is to request a talog, please press 3."

Some people are turned off when eir phone call is answered by a talkg computer. To them it sounds like an automated runaround. In fact, these electronic telephone operators shorten the wait for scarce live operators, mostly by screening callers while they're waiting in line. These stand-alone automated call systems complement a company's separate phone switch, or PBX, by delivering a greeting message, queuing incoming calls, playing music or promotional messages and switching calls to an available agent.

The use of toll-free 800 numbers for everything from catalog sales to 24-hour bank service has more than doubled over the last five years as 800 service has gotten cheaper. And so more fingers are doing the walking. The resulting surge in traffic is both a blessing and a threat for companies. If customers are kept waiting on hold too long, they'll hang up and call a competitor.

The earliest automatic call distributors were developed in the early 1970s for use by big airline reservation systems. They simply held calls in the order in which they were received and played a little music while you waited. Then along came electronic engineer James Carreker, who saw a chance to improve on the automated receptionists by exploiting advances in computer software. What if the computer—instead of merely repeating the same annoying announcement every few minutes—could actually interact with the caller to help speed the call to its destination? What if it could distinguish between urgent calls and prank calls?

Carreker knew a lot about phone systems—his job at the time was to track the PBX business for market researcher Dataquest. In 1985 Carreker quit to start a company to develop

software to handle all the automatic call-routing features he'd envisioned. Last year his San Jose, Calif.-based company, Aspect Telecommunications Corp., had revenues of $30 million and net income of $2 million. The outfit went public in May at 15 and was selling at 22 (81 times 1989 earnings) before the recent market downturn. The bulls say Aspect may triple its earnings this year. Carreker's stake in Aspect—at its recent price of 15—is worth $7 million.

Aspect's complex call-handling software helps companies improve their image. "Every caller forms a visual picture of a company at the other end of the line," says Carreker, 43. A good call router can make a telemarketer appear telepathic. One way this is done is by using automatic number identification, a phone company feature that transmits alongside a voice signal the number of the person calling. It's something like the return address on an envelope, although the caller can block this information, just as he could send out an envelope with no return address if he wanted to.

By the time an operator answers the phone, Aspect's computer has already identified the caller, grabbed any information about the caller that may be sitting in the company's database and displayed it on the operator's computer screen. Important customers are pushed to the front of the line.

A hitch could arise in the future, if the caller lives in a state where the American Civil Liberties Union is campaigning to outlaw automatic number identification. The ACLU's view of number identification is pretty extreme: The system is an "invasion of privacy," even if the caller has the option of blocking it. So far, the ACLU has persuaded a Pennsylvania court that it is illegal for phone companies to permit the equivalent of a return address to accompany their calls. Pennsylvania consumers may get slower responses when they call their broker or catalog retailer. However, Aspect can offer its clients a system in which different types [illegible] customers are given different pho[illegible] numbers to call or special codes [illegible] punch in after the call is complete[illegible] Even Pennsylvania, however, wou[illegible] let a telemarketer capture the calle[illegible] area code and local exchange—enough useful demographic inform[illegible] tion to enable a call coming from [illegible] French-speaking part of Canada to [illegible] automatically routed to a Frenc[illegible] speaking operator.

Gerry Gropp/Spa

Jim Carreker of Aspect Telecommunications
What if caller I.D. is an "invasion of privacy"?

Aspect's million lin[illegible] of software coding ca[illegible] jockey callers in and ou[illegible] of line based on their an[illegible] swers to a few quic[illegible] questions. Someon[illegible] calling with a new ord[illegible] gets top priority—aft[illegible] all, no company wan[illegible] to miss an order becaus[illegible] the customer got tired [illegible] waiting and hung u[illegible] Anyone requesting rou[illegible] tine information like [illegible] catalog can quickly b[illegible] shunted to an electron[illegible] voice mailbox withou[illegible] bothering a live opera[illegible] tor. If there are too man[illegible] people on hold, they ar[illegible] given the option of leav[illegible] ing a message and hav[illegible] ing someone get back t[illegible] them.

Lotus Developmen[illegible] Corp. uses an Aspect ca[illegible] router in its softwar[illegible] support center to hel[illegible] screen its customers[illegible] Callers are asked to en[illegible] ter the serial number o[illegible] their software. This al[illegible] lows the computer t[illegible] check to see if the soft[illegible] ware was legitimatel[illegible] purchased and whethe[illegible] the caller paid for hi[illegible] support contract. Th[illegible] system can tell how[illegible] many callers got tired o[illegible] waiting and hung up an[illegible] in some cases who hun[illegible] up.

The stand-alone auto[illegible] matic call distributio[illegible] market is largely con[illegible] trolled by the big fel[illegible] lows, like Rockwell' [illegible] communications divi[illegible] sion and privately hel[illegible] Teknekron, which ac[illegible] quired Datapoint's In[illegible] foswitch division seve[illegible] years ago. Togethe[illegible] these two players con[illegible] trol 80% of the $30[illegible] million stand-alon[illegible]

Chad Slattery

Air New Zealand agent
"Callers form a picture of a company at the other end."

The Problem With Buying Software From A Hardware Company

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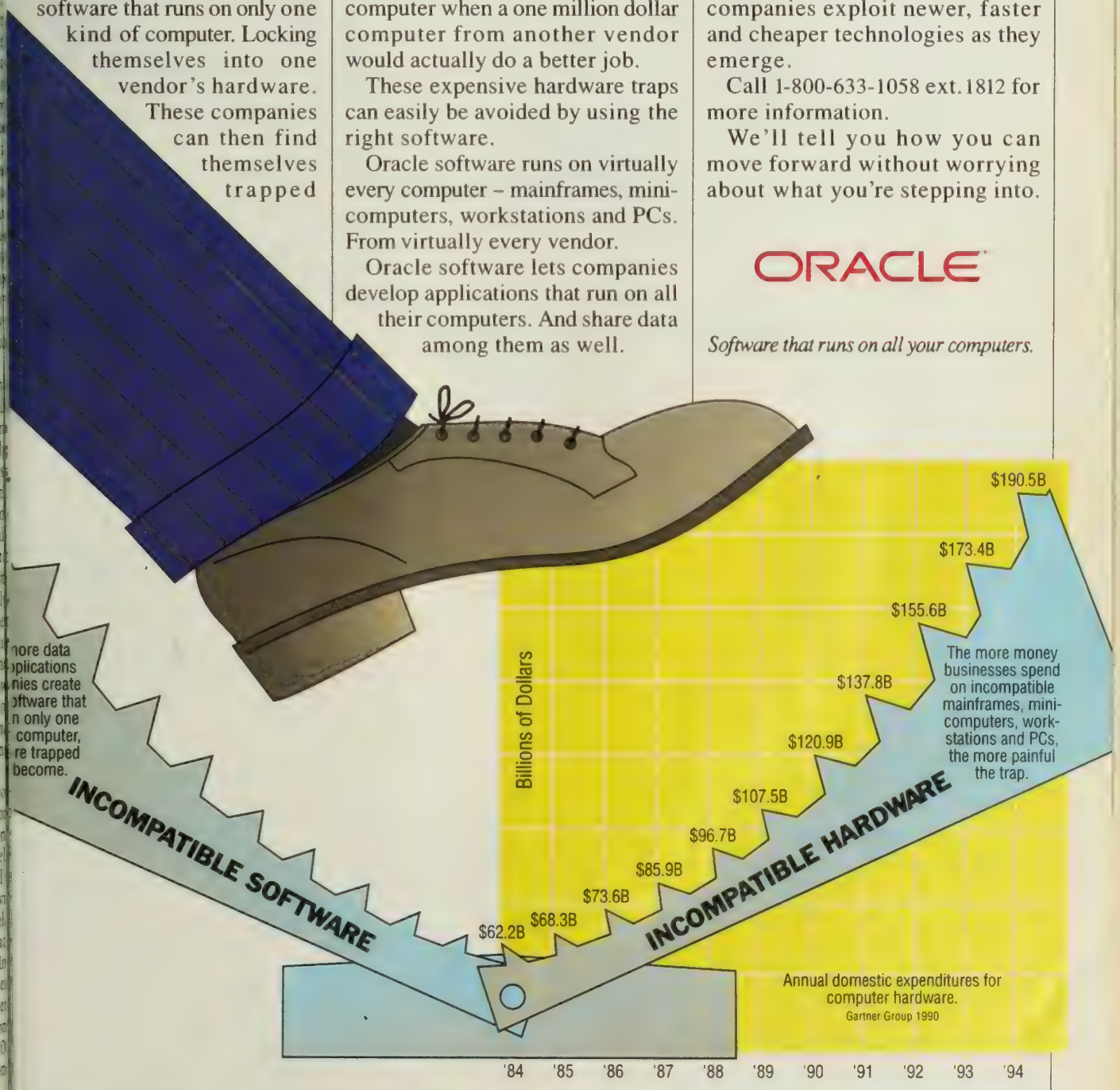

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market; PBX makers account for another $300 million or so of the total call distribution business.

With an average price of $400,000, Aspect's 100-line Call Center is comparable with Rockwell's. Still, Carreker thinks that he can wrest some market share away from the big guys. Instead of trying to take a big customer like American Airlines away from Rockwell, Carreker signed up Air New Zealand, which says that superior telephone service will give it a competitive advantage.

The market for electronic receptionists is growing rapidly, especially as Europe begins offering 800-number service. Telephone companies wan to get a piece of the action by offerin call distribution services throug their central office switches.

In a market that's growing this fas there's more than enough business f clever entrepreneurs like Carreker- provided, of course, that they ca keep ahead of the various self-a pointed consumer guardians th don't like technology. ■

Computer Ventures

Commentary by Richard A. Shaffer

WHY MOTOROLA IS EXPENSIVE—AND STILL A BARGAIN

Good technology companies tend to be very expensive, in the sense that their prices are high multiples of their earnings, and Motorola is no exception. The stock is already up 24% this year, putting it at 19 times trailing earnings. Over the next few years, however, Motorola and its shareholders may do even better because of its increasing importance in wireless communications.

Motorola makes semiconductors and computers, too. For investors, however, the future lies in communications and in the company's plans to use its expertise in digital technology to build what could become a vast worldwide service and equipment business.

In computers, Motorola is unprofitable. But in semiconductors, the company is edging ahead of Texas Instruments, which had been America's largest producer of circuits sold primarily to others. (A few large producers, like IBM, make chips only for themselves.) Motorola is far behind Intel in profitability of its chip production, but it is at least doing well at a time when TI, Advanced Micro Devices and National Semiconductor all are struggling. And, although Motorola has no microprocessor home run like the Intel 386, Motorola is proving in semiconductors a point IBM has made in computers: Product breadth, strong marketing and manufacturing, and customer diversity can overcome many shortcomings. Like IBM, Motorola often comes late to an opportunity—re-

duced-instruction-set computing being a recent case in point. But, again like IBM, Motorola is all but impossible to dislodge once it has entered a market. As cost-conscious customers strive to reduce the number of suppliers they work with, a big portfolio helps Motorola to stay on their lists.

Also like IBM, Motorola has figured out how to make money overseas, where the best opportunities for growth now lie. In foreign markets—except in Japan, where TI is entrenched—Motorola is usually the leading nonlocal chip supplier.

Increasingly, however, Motorola's story is a story about communications, not semiconductors. The company is the leading supplier of cellular equipment. In this explosively growing industry, carriers like McCaw Cellular are still far from profitability, because they are so busy paying off loans used to buy franchises. But the hardware makers are making good money.

Motorola is capturing headlines with its pagers—one of its latest can be worn like a wristwatch, and another is the first that can store voice messages. Its $3,500 Microtac, the 10-ounce cellular telephone, has become a popular executive perk. The company's digital voice technology has been chosen by the Japanese government. For an American company to win a Japanese government contract, especially in communications, you just know the product has to be great.

On the basis of such products, Motorola's cellular systems business contributed around 40% of operating profits last year and doubled in sales to about $1.5 billion. Around the world, more than 60% of the equipment that connects cellular telephones with ordinary telephone systems is sold by Motorola. For the next three years, the company expects its cellular business to grow about 40% annually. If that happens, cellular equipment will become Motorola's largest single business, reaching almost $4 billion within another couple of years. Cellular systems also are becoming the company's most profitable business—earning a pretax return on sales that is almost twice as large as Motorola's other communications products, and nearly three times as much as its semiconductor products.

Now Motorola is planning a $2.1 billion communications network that would rely on dozens of small satellites to connect millions of pocket-telephone subscribers around the world. The network, called Iridium, could be in service by the middle of this decade, although very high financing and regulatory hurdles remain.

There is no shortage of competition. Already, Japan's NEC and Sweden's L.M. Ericsson are challenging its lead in pocket telephones. But there is also a lot of business to go around, with the number of cellular telephone customers likely to climb from 10 million today to 100 million before the decade is out. Even at its current price (73), the stock looks good long term. ■

Richard A. Shaffer is founder of Technologic Partners, a technology consulting company in New York City, and publisher of Technologic Computer Letter.

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Commentary by Peter Huber

MADONNA AIN'T SOFTWARE

Even if I happen to own a wig and a sultry pout, I can't strut around impersonating Madonna in television commercials. The courts have ruled that an imitator is stealing when he or she tries to cash in on a celebrity's unique voice or visage. And so they should, in my view.

In matters of artfully created look-and-feel, what goes for Madonna goes for Lotus Development Corp. In June Federal District Judge Robert Keeton ruled that Lotus enjoys broad copyright protection from knockoffs of its famous 1-2-3 spreadsheet program. Lotus' computer code hadn't been copied. But its command structure—the screens, word patterns and keystrokes that make 1-2-3 work—had, and that was too much.

The software industry is all atwitter. Some argue (in line with a Mar. 6, 1989 FORBES cover story) that letting Lotus copyright its commands would be like letting it copyright the alphabet. Others say that look-and-feel is too subjective and imprecise a concept to protect with the heavy club of copyright law. They argue this way: Suppose the Madonnas of the software business next try to enforce their look-and-feel rights against the Whoopi Goldbergs? With uncertainty of this order in the air, software programmers, like entertainers, just won't dare perform anymore.

I'm inclined to think this argument is specious and that the courts were right to rule against imitators. Deliberate knockoffs are easy enough to recognize. "Shweetheart" is Bogart, even when growled by some third-rate comedian. And unlike the alphabet, command structures are not a universal and ancient heritage of the spreadsheet business; they are what distinguish the good, the bad and the ugly. Some interfaces, like the C> prompt in the Microsoft Disk Operating System, are horribly opaque and inscrutable. Some, like the Lotus spreadsheet, are wonderfully transparent and intuitive. Great innovation is just what intellectual property rights are supposed to protect.

With that said, I think Lotus has made one big mistake. If it's clever, Lotus' archrival, Borland International, will announce that it welcomes look-and-feel copying of its Quattro Pro spreadsheet by every software developer in the country. Whether led by Borland or someone else, the anything-but-Lotus programmers and spreadsheet users now have a strong incentive to converge on a different interface standard—perhaps Borland's, perhaps someone else's. How quickly they do so will depend on how (unwisely) assertive Lotus chooses to be with its (well-deserved) copyrights.

This conflict between openness and ownership goes back to the days when "IBM" and "computer" were synonymous. Trustbusters, along with quite a few disgruntled customers, said IBM was monopolizing the computer market by first addicting its customers to particular hardware standards and then beating off competitors with patents. Today, though it isn't being hectored by antitrust lawyers anymore, IBM is falling all over itself to disown its proprietary past and tout the common standards and compatibility it shares with everyone else. On the software side of things, IBM has suddenly become a passionate believer in open systems, or at least in an open version of Unix, the sophisticated operating system originally developed by Bell Labs.

Apple likewise started—and flourished—with an open-architecture machine that was wonderfully easy to interconnect and clone. As soon as IBM learned the lesson, Apple forgot it, and foolishly tried to seal up its second-generation machines. It paid a heavy price in the market, and has spent years since trying to undo the mistake. Sun Microsystems, the highly successful workstation upstart, has taken the gutsy step of openly inviting people to clone its microprocessor.

What most hardware people now recognize is that closed systems don't thrive in the modern information age. The same is true for closed software, only more so. Unlike most other valuable commodities, though much like barley loaves and fish by the Sea of Tiberias, information is not consumed—and its value in fact often increases as it's shared. A football game is just a game, but the Super Bowl is a cultural event. I'd rather speak English than Esperanto, though English is less efficient and logical. And as different kinds of software converge on common interfaces, eager users like me buy more of it. I'm better off; so is the software industry; so especially are the firms that establish superior standards to start with. The last thing you should want in a software firm is to have your patents and copyrights so well lawyered that no one dares sound, talk, look or feel the least bit like you.

Curiously, Lotus was one of the first to understand the imperatives of conviviality in the software business. The company has been a leader in helping boutique programmers attach specialty enhancements to the 1-2-3 scaffold. But when Lotus saw Paperback Software siphoning off a trickle of revenues with a shameless 1-2-3 clone, I guess the Lotus lawyers couldn't be restrained. They should have been.

Lotus enjoys a preeminent market position today, but half the spreadsheet market still belongs to others. If and when a nonproprietary non-Lotus spreadsheet interface evolves, Lotus is going to be in big trouble.

Madonna needs all the look-and-feel protection she can get, but only because she operates in a material world. Software companies don't. Lotus will live to regret the day it unleashed its copyright lawyers to enshrine 1-2-3 as a don't-you-dare-copy-me prima donna. ■

Peter Huber, a senior fellow of the Manhattan Institute, is the author of Liability: The Legal Revolution and Its Consequences.

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Personal Affairs

Edited by William G. Flanagan

Al Capone hid out at Two Bunch Palms in the 1930s. Now Hollywood stars and starmakers repair to this California desert resort for massages, mud baths and a quiet place to read screenplays.

Star-spangled spa

By Ellen Paris

TAKE A MIDNIGHT DIP in the hot pool under the desert sky, and you might wind up with Bruce Springsteen or Neil Diamond for company. In the restaurant, as you eat swordfish and freshly baked bread, Jim Belushi and Robin Williams could be cracking jokes across the room. Take a mud bath, and the caked body next to you could belong to Bette Midler or Goldie Hawn, both regular guests.

If seeing celebrities close up is what turns you on, Two Bunch Palms Resort & Spa, in Desert Hot Springs, Calif., near Palm Springs, is the place to go. What if you couldn't care less about celebrities? Two Bunch is still one of the best spas in the countr Twenty-three full-time trained ther pists offer a dozen types of massag There are facials and mud baths, th latter performed in an outdoor pavi ion. Other treatments include sca massages, body wraps, salt glo an herbal steam baths, and even a se algae body wrap massage.

The spa facility is located beneat the restaurant; legend has it that th spa is where Al Capone's molls wer sequestered when Capone made Tw Bunch his refuge in the 1930s. Th manager will show you old photos the hideout as it was in the gangster day. And you can even sleep where A slept, now a two-bedroom suit Note: Security at the resort toda would have impressed even Capon Only registered guests and the guests are permitted on the ground and guards are constantly on patrol.

There are lighted tennis courts, bu Two Bunch is not a high-energy re sort. There is no golf course and n exercise equipment. And you won get run over by frenetic joggers or bi cyclists on the walking paths of th 100-acre property; the paths win around two small lakes and revea secluded and romantic picnic area hidden among tamarisk trees, bou gainvillea and palms. If you'd like t acquire an all-over tan there are su bins scattered around the property.

The resort's focal points are the tw hot mineral water pools, fed by a ho artesian spring. The mineral-rich wa ter comes in two temperatures, a womb-warm 99 degrees Fahrenhei and an even more relaxing 104 de grees. Surrounded by towering palm trees, the grotto pools resemble a se straight out of *Lost Horizon.*

In addition to the hot pools there is a regular swimming pool. Against a backdrop of 11,000-foot-high Mount San Jacinto and the snowcapped San Gorgonio Mountains, guests thumb screenplays instead of bestsellers.

Photographs by Mark Hanauer Onyx

Pools fed by hot springs never cool down
A setting right out of Lost Horizon.

Rock House, a two-bedroom villa
But no bellboys or room service.

Mark Hanauer/Onyx

A dozen kinds of massage, given by 23 therapists
Not what you'd call a high-energy resort.

Informality reigns here—there are no bellboys, no room service and no dress code. Indeed, last spring two young Hollywood starlet types forgot themselves and strolled into lunch without a stitch on. "This is a great job for a voyeur," chuckles General Manager Gerald Greenbach.

Two Bunch Palms is open all year except August; high season is November through May.

Accommodations vary, ranging from hotel-style rooms (furnished with antiques) to private villas built around a common pool. There are 44 rooms and villas. Prices range from $105 to $345 a night, including Continental breakfast. Reservations are at a premium, so book early.

The resort is about a 2½-hour drive from Los Angeles, traffic permitting. Phone: (619-329-8791).

Vou bet your life

Here's a retirement product for the decidedly optimistic: You win nly if you live to a ripe old age.)therwise, it's a sucker bet.

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Retirement Assurance is part annuy and part tontine. A tontine, ou may recall, was a rather risly, winner-take-all financial arrangement. Individuals ould contribute like sums, nd the last one alive collected ne whole pot—including ppreciation.

Retirement Assurance is a roduct of IDS Financial Corp., n Minneapolis. It is aimed at olks who are still well shy of etirement but are worried bout how they can get by if ney outlive their assets. You ut up a certain amount, then ick an age when you want to art collecting your annual enefit, which you will reeive for the rest of your days. you don't reach your target ate, tough luck. Your estate eceives only the rather modst amount you put up when ou signed the contract. In efct, your losses are the other urvivors' gains—not unlike a ontine.

Of course, the younger you re when you sign up, and the lder you are when you start to ollect, the higher the annual benefit *(see table)*.

Suppose, for example, that you are age 40, and invest $10,000. You elect not to collect any payments until you reach 85. (You're assuming your savings and pension benefits won't meet your needs by then.) Figuring interest rates at a current 8.2%, and a life expectancy beyond 85, that will give you $155,587 a year for the rest of your life—more than double what an annuity would pay. If you choose an earlier payout age, say upon reaching age 70, the benefit is less than a tenth of that—only $15,098 a year. (Of course, you'll probably collect it a lot longer).

What do the actuarial tables say about your longevity? According to IDS' mortality rates for annuity buyers, current male life expectancy for someone 40 years old today is 81. And just 44% of men aged 40 now will make it to 85; only 37% of them will celebrate an 87th birthday.

For women the picture is a bit brighter—or at least longer. Forty-year-old women have a 61% chance of reaching 85, and over half should make it to 87. But because of their higher life expectancy, women must pay higher premiums to receive the same income.

What's the one-time cost of Retirement Assurance? The minimum premium is $1,000 if you're under 40, $3,000 for those 40 to 60. Of course, the younger you are when you buy, the greater the returns.

Says one recent purchaser: "It's more of a gamble than an annuity, but the payoff is definitely greater."

Still, if you come from long-lived ancestry and worry about outliving your nest egg, Retirement Assurance might make sense. It is currently available in 32 states. For more information call IDS at 800-237-2569.—**Evan McGlinn**

IDS Retirement Assurance—$10,000
8.2%, tax-deferred

Purchase age	Annual lifetime income based on payout age 70	75	80	85
40	$15,098	$29,289	$61,675	$155,587
45	9,774	19,279	40,456	101,738
50	6,426	12,342	26,292	65,794
55	4,143	8,002	16,903	41,968
60	2,706	5,075	10,516	26,311
65	1,771	3,248	6,487	15,800

Fixed retirement annuity—$10,000
7.8%, tax-deferred

Purchase age	Annual lifetime income based on payout age 70	75	80	85
40	$11,477	$19,621	$33,905	$60,864
45	7,884	13,205	23,290	41,244
50	5,336	9,071	15,672	28,332
55	3,665	6,139	10,767	19,068
60	2,518	4,217	7,287	13,104
65	1,729	2,897	5,004	8,856

Interest rates as of 8/2/90. *Source: IDS Financial Corp*

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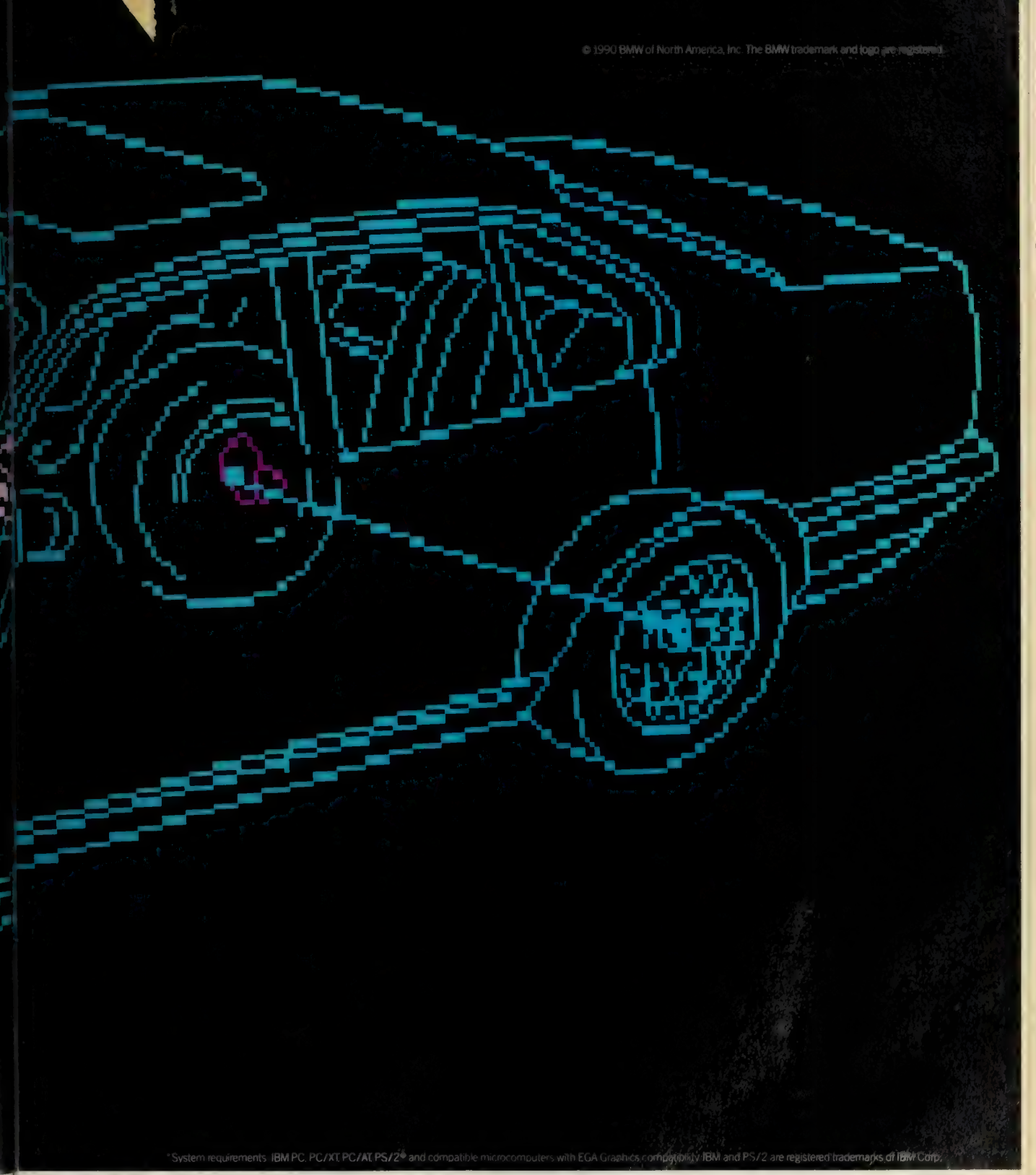

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THE ULTIMATE DRIVING MACHINE.

One of the less desirable by-products of the collapse of communism is an outpouring of artistic fakes from the Soviet Union.

Kandinsky, anyone?

By Peter Fuhrman

When the walls between East and West came tumbling down, it was inevitable that a lot of art that had been privately held in the Soviet Union would suddenly be finding its way to Western markets, in return for hard currencies.

Sure enough, in the past two years many previously unknown works by famous Russian avant-garde painter Wassily Kandinsky have surfaced. So, too, have paintings by an important contemporary of Kandinsky's, M khail Larionov. Collectors eager f things Russian have been snapping u not only contemporary paintings b everything from icons and Fabergé antiques and porcelain.

Take a walk down Moscow's Arb Street or through the city's outdo flea market in Izmailovsky Park ar you'll see the throngs of Westerne looking over paintings—suspend from clotheslines—icons and oth antiques. The merchandise can be ha for rubles, but dollars are preferre Soviets look on with amused smil as Westerners use gestures and mut ly bargain with dealers.

Sound like a great prelude for swindle? Of course it is—and that exactly what has been going on. Th entrepreneurial spirit beats strongl in the heart of the Russian forger; th great Russian art hustle of 1990 is i full ferment.

Take the "new" Kandinskys. Whe they show up in Western galleries an auction houses for sale or appraisa most turn out to be bogus. "Just las week," says Amanda Renshaw, a sp cialist in modern Russian painting a Christie's in London, "I was show three fake Kandinsky paintings, all c pretty good quality, but still easy t spot as fakes."

And the Larionovs? An exhibit in Geneva museum was suddenly close two years ago, and the entire collec tion of 193 paintings was seized by Swiss court. An eminent Swiss exper on Larionov has proclaimed tha many if not all of the works are pho ny. The Art Dealers Association, a American trade group, has warned it members to be on the lookout for a many as 1,500 fake Larionovs nov circulating among collectors, gallerie and auction houses.

Forgers haven't been confinin themselves to 20th-century paintings either. Both Christie's and Sotheby' in London report seeing lots of phony Russian icons, 19th-century paint ings, Fabergé objects and porcelain.

Of course, the forgers have bee getting a lot of help from gullible bar gain hunters. It is illegal to take out o Russia virtually anything of valu that predates 1945, for example. Ye the suitcases of departing tourists of ten groan with "old treasures," which Soviet customs officials ignore. Do they know something?

The most skillful forgers favor Kandinsky. Why? After he fled the Soviet Union in 1922, the painter was vilified by the Soviet government, which only enhanced his reputation. His paintings sell for more than those o any other Russian painter—and

Steve Benbow

The fake Kandinsky in the British Museum
It fooled the dealer who bought it—but the date was the giveaway.

Honest faker

Ever fantasized about hanging a Rembrandt over the living room sofa but been dissuaded by a $15 million price tag? Not to worry, Leo Stevenson can produce your Rembrandt for just $10,000.

Leo Stevenson is the legitimate face of art forgery. He manages to earn a good, honest living by producing on commission replicas of paintings by artists far more celebrated than himself.

His legitimate services are much in demand these days. Stevenson is painting his way through a six-month backlog of orders, including a big job for an American client who wants copies of 18th-century portraits of his ancestors.

Stevenson promises an exact duplicate, down to the direction and swirl of each brushstroke. He specializes in Dutch 17th-century paintings, including the works of Vermeer, Rembrandt and Hals.

Stevenson's works are state of the art. The British Museum has several on display in its exhibition of fakes and forgeries. One is a copy of a Vermeer painting, on which Stevenson spent over 800 hours. He calls it his "supreme work." The picture will be auctioned after the show, and is expected to fetch at least $25,000.

Unlike most forgers, Stevenson is a law-abiding man. He says one of his biggest worries is that a copy of his will one day be passed off as an original. To prevent this, he always leaves a telltale sign that shows up in technical analysis. In the Vermeer, for example, he painted part of the undercoating with a special pigment. "If you put the picture under an X ray," he says, "you will see that the woman is wearing 20th-century underwear."—**P.F.**

Steve Benbow

Master copier Leo Stevenson putting finishing touches on his Rembrandt
The Van Gogh (right) and the Vermeer (left) are also copies.

herefore, so do the forgeries.

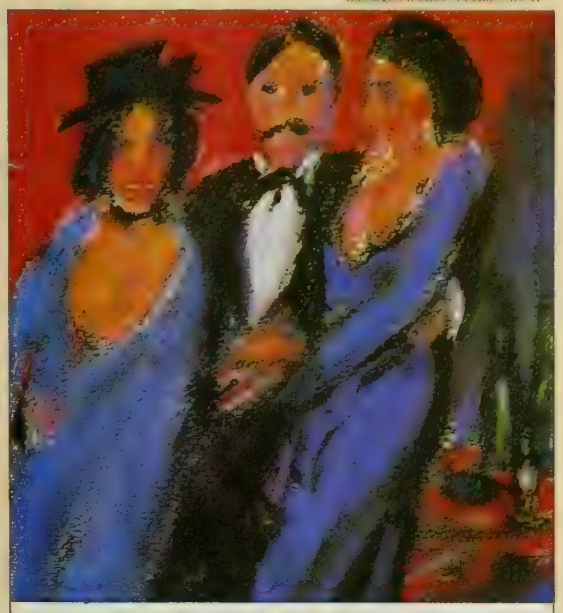
Helpful, too, is the fact that any of Kandinsky's paintings re of a simple geometric design hat is, relatively speaking, hild's play to copy.

One such Kandinsky forgery now on display at the British Museum. No, the venerable museum was not bamboozled. he fake Kandinsky is part of an xcellent and entertaining exibit called "Fake? The Art of eception." The exhibition, on now through Sept. 2, features 00 fakes and forgeries, including the Kandinsky, a fake Botticelli, Chinese bronzes and Rembrandt drawings.

The Kandinsky was bought ecently by a knowledgeable modern art dealer who thought genuine and was told the picture came from the Soviet nion (where it's a snap to conect a provenance). The picture features a faultless version of Kandinsky's distinctive monogram and has a strong resemblance to some of Kandinsky's best-known work. But, according to the curator of the exhibition, the British Museum's Mark Jones, the talented but unknown forger made one crucial error. The painting is dated 1925 but is of a style the Russian painter used a decade earlier. Had the forger dated his picture 1913, the forgery would have been far harder to detect. Passed off as genuine, it would sell at auction for something like $1 million.

In this case, as in most others, the forger has not been caught. Forgery is one crime that rarely if ever goes punished—and why should the Soviet Union care when it so badly needs foreign currency?

Stadtgeschichtliches Museum Frankfurt am M.



Painting attributed to Mikhail Larionov
One of 193 seized by Swiss authorities.

Roc

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Faces
Behind the Figures

Edited by Jason Zweig

Roger redeemed?

Timothy White-Onyx

GM's Roger Smith with a Silhouette van
With oil prices up, he's looking good.

Roger Smith, who retired in July after nine years as General Motors' chief executive, took a lot of flak for GM's poor showing in the 1980s. But some of his pet projects are beginning to look very good in the wake of his retirement, what with fuel economy again a hot issue because of the Iraq eruption. There's Saturn, the $3 billion bid to make a better small car than the Japanese, and there is Smith-directed work on battery-operated and methanol-powered cars. The sporty Saturn, which is expected to get roughly 35 miles to the gallon, is due in showrooms in October or November. Meanwhile, GM's three-cylinder Geo Metro, a fruit of Smith's joint venturing with Japanese carmakers, gets 58mpg. Sales of the low-priced Geo line are up 68% this year. If Saturn and Geo pay off, Smith and his team may be remembered more for positioning GM for the 1990s than for presiding over its weak performance in the 1980s.—**Rick Reiff**

Shakeup artist

In late July David Hedley, a managing director of Donaldson, Lufkin & Jenrette, injected some excitement into the normally dull utility business by orchestrating the first hostile takeover bid ever for a power company. His client, Kansas City Power & Light Co., needed more generating capacity. Wichita-based Kansas Gas & Electric Co. had more than it could use. Hedley, 44, suggested a friendly merger, but Gas & Electric didn't want to dance, so Hedley had Power & Light make a hostile bid. Gas & Electric's board is fighting the tak over, and the battle could drag on fo year or longer. But if the deal does through, Hedley's client will get ge erating capacity for a lot less than would cost to build a plant fro scratch.

This is not the first time Hedley h shaken up the power industry. In t early 1980s he carved himself a sp cialty trade by showing utilities ho to remove some operations from t supervision of state regulators a putting them instead under more nient federal supervision. This He ley did by shifting a utility's powe generating assets into a separate un that sells power back to the pare and other wholesale customers.

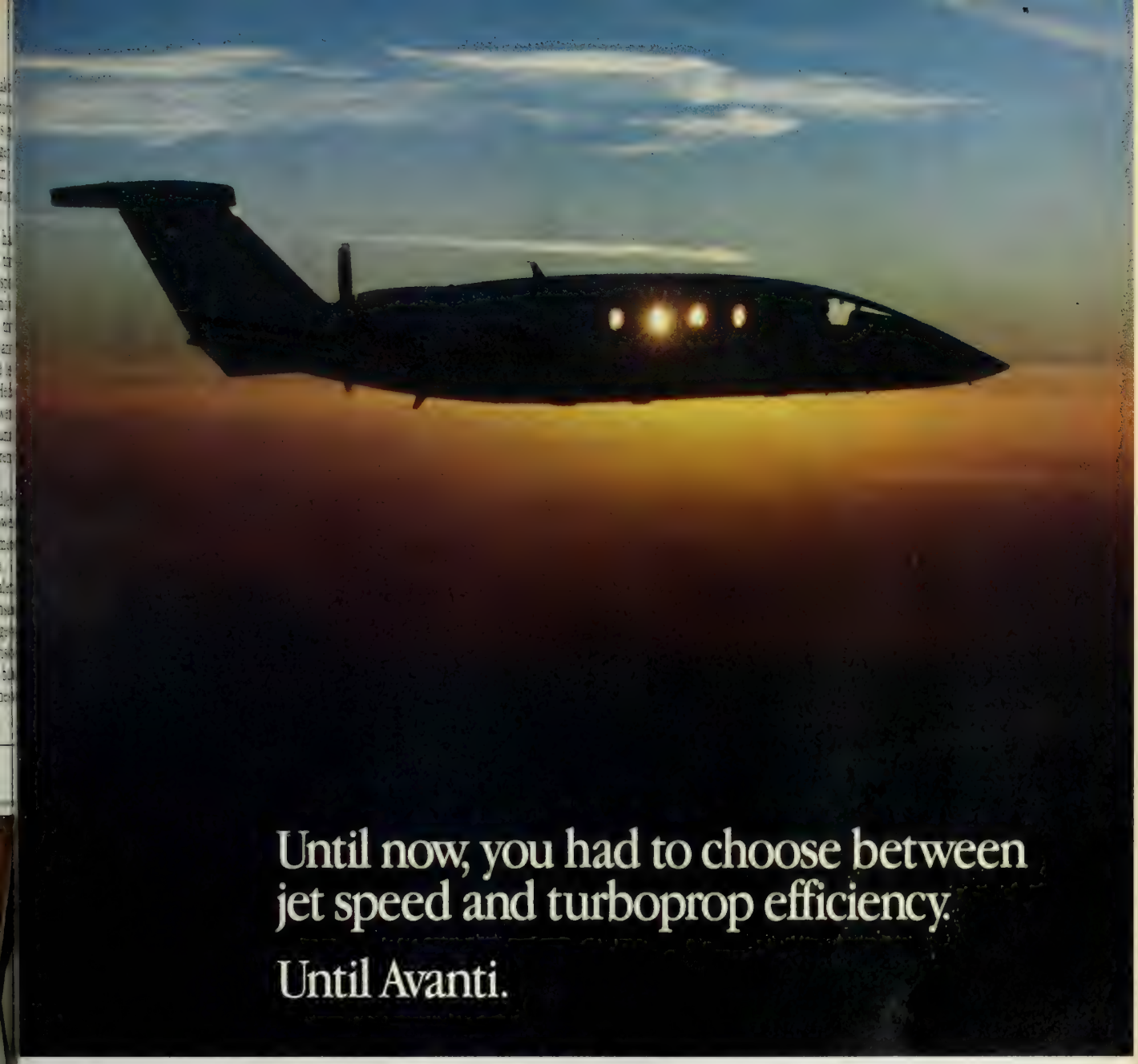
Firms that have turned to Hedl for such advice: Consumers Pow Co. of Jackson, Mich. (since renam CMS Energy Corp.); Alamito Co., Tucson-based electricity wholesale and UtiliCorp United, Inc. of Kans City. Says Hedley, "The single bigge risk in this business is regulatory ris You can do everything correctly, b then the regulators can me you up."—**Seth Lubove**

DLJ's David Hedley
Electrifying ideas.

John Abb

Hot case

The administrative law judge fo the Food & Drug Administration Daniel Davidson, 56, will hear th case against the President's so brought by the Office of Thrift Super vision. At the first public hearing scheduled for Sept. 25, Neil Bush wil be cross-examined by governmen lawyers about conflict of interes charges stemming from his role as a director of Silverado Banking, Savings & Loan Association.



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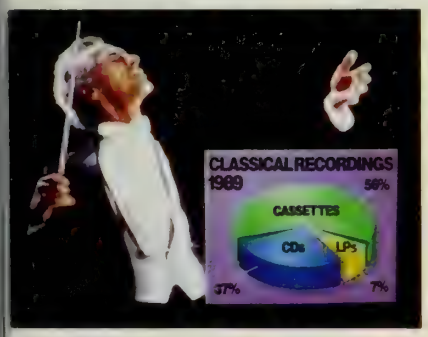

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Walter Calahan

Judge Daniel Davidson
Now come Neil Bush and Silverado Savings.

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As the sole administrative law judge at the FDA since 1975, Davidson spends most of his time presiding over complex disputes such as the "Proposal to Withdraw Approval of New Drug Application for Vioform-Hydrocortisone Cream, Ointment and Lotion Containing Iodochlorhydroxyquin and Hydrocortisone."

So what's he doing handling a financial ethics case? Davidson, who was assigned to the Bush case by the Office of Personnel Management, is not a total stranger to financial matters. He has handled two cases for the Federal Home Loan Bank Board, two cases for the Federal Deposit Insurance Corp. and one case for the Board of Governors of the Federal Reserve.

"I don't claim any technical expertise," says Davidson. "My job is to conduct a fair hearing and make sure procedural due process rights are followed." If Bush is found to have violated thrift regulations, the stiffest penalty he faces is a cease and desist order directing him to comply in the future with federal banking rules. Any further civil charges would have to come from the Federal Deposit Insurance Corp. Davidson is aware of powerful Beltway currents swirling around the case, but he vows to ignore them. "I know it's a political football, but I'm not going to get involved in politics. I stopped reading about it over a month ago."—**James Lyons**

Baroness Dunn

The hottest ticket in Hong Kong this summer was to the gala at the Grand Hyatt Hotel on July 20 to mark Queen Elizabeth's elevation of Dame Lydia Dunn to baroness. Born into a prosperous Cantonese merchant family, the 50-year-old Dunn earned a degree in business administration at the University of California at Berkeley and began her business career in Hong Kong at 23 as an executive trainee at a subsidiary of John Swire & Sons. Today she is executive director of Swire Pacific, the trading division of John Swire & Sons (H.K.) Ltd. and sits on the boards of two other powerful Hong Kong institutions: Cathay Pacific Airways and the Hong Kong Shanghai Banking Corp.

But it is Dunn's government wo that won her accolades from th queen. A senior member of the Hon Kong Executive Council that advis the governor, Dunn helped guide th team that negotiated the Sino-Britis Joint Agreement that will give Hon Kong back to Beijing in 1997. As th first woman and only the second pe son in Hong Kong history to be mad a lifetime member of Britain's Hous of Lords, Dunn will be able to mo directly lobby the Thatcher gover ment to grant more passports to Hon Kong Chinese. The Hong Kong go ernment predicts that 426,000 peop will leave the Colony between 198 and 1996.

Dunn wants Britain to grant cit zenship rights to the 3.25 million Bri ish subjects in Hong Kong, hopin that this would give them an insu ance policy in case communist ru proves intolerable for them. Posse sion of such a "policy" might slow th current brain-draining exodus. But s far London has provisionally grante citizenship to 50,000 key Hong Kon British subjects and their families, about 250,000 people.

Dunn, chairman of the Hong Kon Trade Development Council, is none theless bullish on Hong Kong's fu ture, pointing to the dozens of offic buildings being erected and th planned $16.3 billion airport projec Says Dunn, "China needs Hong Kon the way it is, especially our invest ment knowhow. China cannot re main isolated, the only country in th world adhering to strict socialist poli cies."—**Marc Beauchamp**

Lady Dunn with Prince Charles
More passports from London?

Hong Kong Trade Development Council

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You don't have to be clairvoyant or even a market pro to pick a mutual fund intelligently. Just follow some simple rules, avoid some common pitfalls and understand the risks.

How to choose a fund

By William Baldwin

IT'S AMAZING how careful people can be shopping for a $300 VCR and how sloppy they are shopping for a $3,000 mutual fund.

A few years ago this writer heard from a friend who had just bought a stock fund for his 6-year-old. Now, this fellow is not only an astute buyer of electronic gear but he is also an analyst of sorts whose reports are sold primarily to Wall Streeters. He therefore thought he knew what he was doing in picking a fund.

"I bought Dreyfus Strategic Investing," he said. "It can do more things than other funds. It doesn't just buy stocks, it can buy bonds and do hedging."

"Sure," we answered. "But isn't that a load fund? Why did you pay a sales commission to get a fund when you could have had one without a sales commission?"

"Why not? If you pay the fee up front, you don't have annual fees and you're really better off. Aren't you?"

Sorry, friend. You were either uninformed or misinformed. Paying a sales commission (load) does not spare you from paying an annual management fee. Here was an educated consumer who had, in one buying decision, transgressed two of the cardinal rules of fund investing.

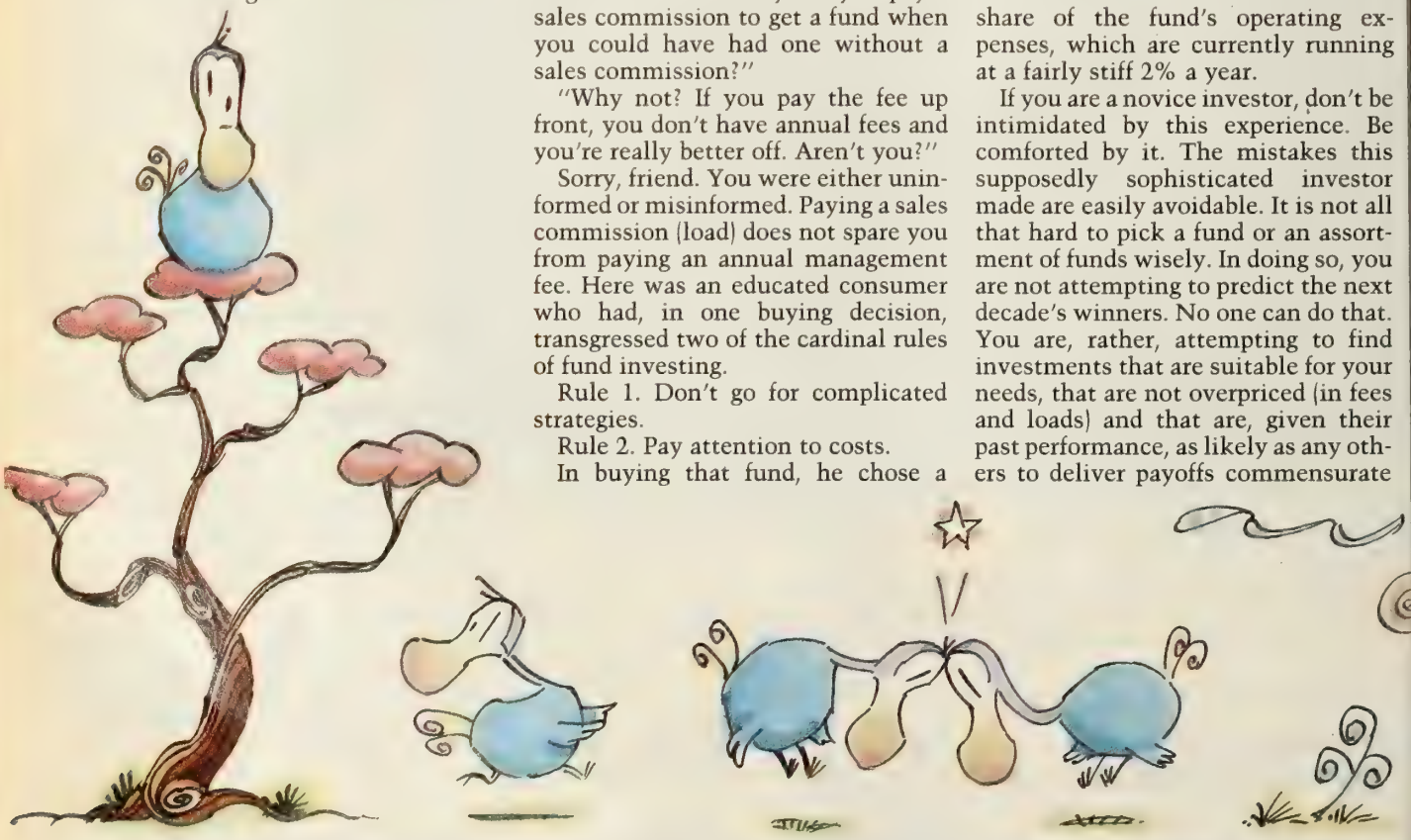
Rule 1. Don't go for complicated strategies.

Rule 2. Pay attention to costs.

In buying that fund, he chose a complicated rather than a simple investment strategy and he paid through the nose for it—twice.

For all the sophistication of the Dreyfus Strategic Investing fund's strategies, it has been a mediocre performer, not quite keeping up with the market over the last three years. As for the 4.5% sales load this investor paid to get in, it was money down the drain. It didn't absolve him from his share of the fund's operating expenses, which are currently running at a fairly stiff 2% a year.

If you are a novice investor, don't be intimidated by this experience. Be comforted by it. The mistakes this supposedly sophisticated investor made are easily avoidable. It is not all that hard to pick a fund or an assortment of funds wisely. In doing so, you are not attempting to predict the next decade's winners. No one can do that. You are, rather, attempting to find investments that are suitable for your needs, that are not overpriced (in fees and loads) and that are, given their past performance, as likely as any others to deliver payoffs commensurate



Patrick McDonnell

with the risks you take to buy them.

Let's be more specific. Suppose your circumstances dictate a very long investment horizon, either because you are young or because you are investing money you know you won't need for a long time. If you are such a person, you most certainly want to put some of your money in mutual funds that concentrate on buying and holding stocks. Now start with the honor roll of funds on page 126. The list consists of 19 domestic stock funds and 1 foreign one. All have performed well above average over the past decade while earning a grade of B, A or A+ in down markets. They have been good performers in bear markets while also doing well overall over a long period.

Why our emphasis on bear market performance? Two reasons. One, we use downmarket grades as an indicator of risk. A fund that did well over the past decade but suffered severe downdrafts along the way is, for most investors, not as useful as one that got just as far with a plodding gait.

If you are exceedingly confident about the further upward movement of the Dow, you can disregard this caution and go for the funds with the highest grades in bull markets. But most people cannot be so confident, and they cannot know when they may need to cash out of a fund. It might be shortly after a crash.

The other reason for the spotlight on bear market grades has to do with where the market has been. Since November 1980, the period over which we grade stock funds, the market has been uncharacteristically bullish. Real (after inflation) annual returns on stocks have been half again as high as their 7% long-term norm. So, if the coming decade is closer to normal, it will have weaker bull markets or worse crashes. Raw measures of point-to-performance—the way most people compare funds—will overreward the fair-weather funds, the ones that get A's in up markets and D's and F's in down markets.

In short, our honor roll honors consistency of performance. That's what we think the smart long-term investor should seek.

Our honor roll includes both load and no-load funds. (Load funds charge sales commissions as high as 8.5%; no-load funds charge no sales commissions.) If you are getting help from a broker or financial planner, you can expect to pay a sales load. But if you are making your own decisions, stick to no-loads. Make an exception to this rule only if the load is very small (under 3%) and you are certain of staying in the fund for a very long time. Some excellent load funds can be bought no-load; see page 140.

If your circumstances call for fixed-income investments, first figure out whether it makes sense to be in a taxable or a municipal (tax-free) bond fund. An IRA, for example, would go into a taxable fund because yields are better and there is no sense putting a tax-exempt security in an account that is already tax-sheltered. Outside of a tax-sheltered account, muni funds often make sense. They pay a smaller dividend than the taxable bond funds, but if you are in a high tax bracket you may be better off sacrificing some yield for the tax exemption. A table on page 130 lists the better no-load bond funds.

Now let's look at the five most common mistakes investors make when they buy funds.

Being mesmerized by complexity. The past decade's explosive growth of futures and options has provided much grist for the mills of fund marketers. The selling proposition: Sophisticated strategies are used by sophisticated people, and sophisticated people get rich. This is nonsense. Warren Buffett got superrich by following simple but sound investment principles. Financial futures may be a real convenience to a portfolio manager, but they don't increase the return you can expect from a fund. Do trifectas make betting on horses more profitable? Why should they? If horseplayers are getting richer, who's getting poorer?

Here's a handy rule. If a fund has the word "strategic" in its name, don't buy it. We mean that only half facetiously. There are 20 equity funds in our database with that word in their names and with records going back at least three years. As a group, they have abnormally high expenses and abnormally low returns. Coincidence? Or marketing hype?

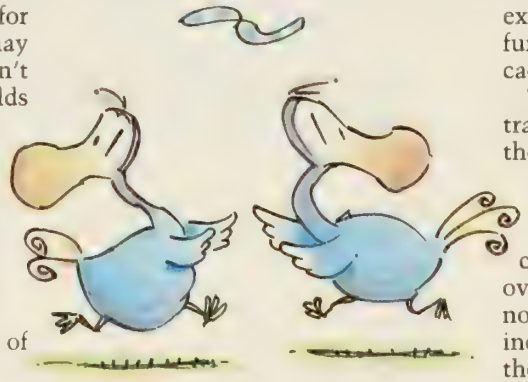
We don't mean to single out Dreyfus, one of whose strategic funds, Strategic World, happens to have done very well over the past three years. Turn to page 134 for a look at the sorry performance of Shearson's Multiple Opportunities Portfolio, which lacks the magic word but certainly fits in the genre.

Overlooking costs. Excellent stock funds are available with annual costs (management fees and overhead) below 1%. Good bond funds should be cheaper still. Don't pay more without a compelling reason. A fantastic performance record or an unusual specialty (say, investing in Third World stocks) would justify stretching these limits a bit. But there is simply no excuse for a fund running up 2% or 3% in annual costs. The fantastic performance, some large part of which is due to luck, may or may not continue next year. But the costs will continue, and eat away at your investment.

Shopping for yield. This is the trap

that fund buyers fall into when they first venture forth from the safe surroundings of a bank lobby. Certificates of deposit should be compared on their yields; funds should never be. Since the principal in a fund is not fixed, as it is in a bank account, there is considerable risk that a high yield will be accompanied by an erosion of principal. Portfolios of junk bonds, for example, behave this way. They may be good investments, but you can't tell that by looking at their yields alone because those yields can be eaten up in bond defaults and price declines in the junk bond market. We show yields—more precisely, payout rates—in the fund tables, but we use something else to calculate performance and award grades. That something is total return, defined as the sum of yield and capital gains or losses.

Misjudging risk. There is no way to earn a real return as an investor and avoid all risk. Cower in the safety of "riskless Treasury bills" and you will merely tie inflation. Buy only bonds and you are taking the chance that runaway inflation will destroy your principal. A pure stock portfolio has this risk: A bear market, arising for no particular reason, chops off 30% of its value, you panic, and you sell at the bottom. You should think about these risks before deciding how to divide your assets among stocks, bonds and cash. Would a sudden loss of 15% of your assets cause you to panic and sell? Then put no more than half your assets in stock funds.



Misjudging the past. Probably the greatest mistake of all is to extrapolate the recent past into the indefinite future. If gold was up last year, gold funds will be hot sellers this year. If the dollar was weak and foreign funds delivered 30% returns without trying, investors will be crowding into foreign funds now. In fact, currency fluctuations and gold prices tend to even out over time. There is no reason to expect that a foreign fund or a gold fund will do better over the next decade than a domestic stock fund.

Today's fad is index funds that track the Standard & Poor's 500. True, the average soundly beat most stock funds over the past decade. But is this an eternal truth or a transitory one? Isn't it possible that the blue chips in the average are, as a group, overpriced? Our conclusion is that now is a bad time to be buying an index fund. Read the article below and the one on page 170. ■

The trouble with an index fund of small-cap stocks is that it is forced to buy a lot of trash. The Fidelity Low-Priced Stock Fund doesn't have that handicap.

Cheap stocks

By Richard Phalon

It is not quite an accident ward, but Joel Tillinghast's portfolio tilts definitely in the direction of rehabilitation and reconstruction. As manager of the Fidelity Low-Priced Stock Fund, Tillinghast, 32, presides over a very unglamorous collection.

"We've got emerging growth companies with no Wall Street support and emerging growth companies that have temporarily stalled," he says. "We've got dogs big and small that appear to have suffered some toxic business reverse. Fallen angels are a specialty of the house."

Mixed metaphors, but then Tillinghast's portfolio is a mixed bag. He is talking about such toxic-tainted fallen-angel dogs as Brooke Group (formerly Liggett), Medex, Showbiz Pizza Time, SafeCard Services, Seagate Technology and Thiokol. Like the 200-plus issues in the portfolio, these stocks are priced at low multiples of their earnings or have passed other tests of unpopularity. To make it into the fund, the stocks had to be selling at under $15. Tillinghast's thesis is that overlooked low-priced stocks, though more volatile than high-priced ones, carry the prospect of proportionately higher gains.

Neither the thesis nor the packaging is entirely new. The Fidelity Low-Priced Stock Fund, launched near the close of last year, is something of a knockoff on the Bowser Growth Fund ("A man's name, not a dog," laughs Tillinghast). Bowser's investment targets were stocks under $3, but the fund never quite got off the ground. It was merged out of existence in December 1988.

Fidelity's muscular sales arm, on the other hand, has pulled in $115 million of assets for Tillinghast. Buyers have not gone unrewarded. Total return so far this year (through July) is a gain of 9%, compared with 3% for the Standard & Poor's 500 stock average and –3% for the Nasdaq over-the-counter average.

The case for the fund is as follows: Small companies, as measured by the Nasdaq index, have lagged the big companies for most of the past decade. It is quite plausible that big stocks (namely, those in the S&P 500) are now overpriced and likely to do worse than small ones in the next decade. You could get an index fund of smaller companies, such as the Vanguard Index Trust–Extended Market Portfolio. Trouble is, an index fund is compelled to buy any and every stock meeting a size criterion, even pieces of junk trading at ridiculous multiples of their earnings and assets. In small stocks especially, you're probably better off with an active manager than

buying the market.

If you buy Tillinghast's fund, it's because his eccentric investment formula makes sense to you—and you are willing to take a chance on Tillinghast's unproven investment record. The soonest his fund could land on our honor roll *(see p. 126)* is somewhere near the turn of the century.

Fidelity's fund is not expensive. You can buy it without a load, and the expense ratio this year is likely to come in at 1.2%. Some other funds specializing in small companies are in the table to the right.

One of the more offbeat of Tillinghast's holdings is a package of four British water companies that make up 11% of the portfolio. Tillinghast picked them up last year when the Thatcher government privatized utilities in an effort to upgrade the often execrable quality of the British water supply.

The stocks had a lot going for them: low multiples, clean balance sheets and inflation-proof rate structures. The potential kicker: the likelihood that the water companies' extensive ownership of sewer systems will lead them into higher-margined ecological undertakings like waste management and control. Northumbrian Water trades at 303 pence, or $5.60 a share; its per-share earnings last year were 78.3 pence ($1.45) and its book value was 933 pence ($17.30).

Time for a small-cap rebound?

Funds specializing in companies with small market capitalizations have had a hard go of it; almost all have fallen behind the passively managed Vanguard Index-500. But that may well mean that small stocks are undervalued now and likely to beat S&P 500 stocks for a while.

Fund	Performance UP markets	Performance DOWN markets	Total return*	Assets ($mil)	Annual expenses per $100	Maximum sales charge
Pennsylvania Mutual	B	B	15.0%	$685	$0.94	none
Acorn	B	C	14.5	953	0.73	none
Alliance Quasar	A+	D	14.4	343	1.10	5.50%
Over-the-Counter Securities	C	B	12.0	291	1.45	4.50
Kemper Summit	A	D	11.8	270	0.81	5.75
Hartwell Emerging Growth	A+	F	10.4	29	2.50	4.75
Scudder Development	C	D	10.3	361	1.34	none
T Rowe Price New Horizons	B	D	8.5	1,051	0.81	none
Neuwirth	A	D	8.4	25	1.84	none
Vanguard Explorer	D	D	7.7	290	0.64	none
Vanguard Index-500 Portfolio	B	C	14.5	2,368	0.20	none

*Average annual total return, 11/80 to 6/90. *Source Lipper Analytical Services.*

What about the fallen angels? Showbiz, thanks to the hit its comic coin-operated Chuck E. Cheese characters made with the younger set, made it big in the market a couple of years ago. But the charm of novelty soon wore thin. "Kids loved it, parents hated it," says Tillinghast. "The restaurants were dark, noisy, bar-like places with arcade-type machines parents figured would turn their 8-year-olds into delinquents."

While most other analysts saw little in the gathering gloom, Tillinghast spotted a management that was suddenly serious about sharpening Chuck E. Cheese's act. With the stock at 13, he made a bet on rising earnings. They have since doubled, and Tillinghast has sold some of his Showbiz at around 26.

"The trick is to back out of the problems," he says. "With luck, maybe you can find earnings power that has been overlooked in the rush to the exits." So it was with SafeCard Services and its descent from 36 to 4 when American Express, a principal customer, decided to go into the credit card loss notification business on its own three years ago.

Tillinghast is chockablock with other hidden value stories: how a production glitch, now cured, drove impatient money out of Medex, a producer of drug infusion paraphernalia; how Seagate Technology's disk drive line has been broadened by acquisition; and why better cost controls for rocket propellants and generic cigarettes will produce earnings growth for such burned-out stocks as Thiokol and the Brooke Group.

It's a curious blend of daring and caution—and it's a lot more interesting than a black box index fund painstakingly programmed to replicate the averages. ■

Shawn G. Henry Saba

Joel Tillinghast of Fidelity Low-Priced Stock Fund
Sometimes even British water tastes good.

Picking a good stock fund is not simply a matter of picking one with the hottest record over some period. In investing, stamina counts as much as speed, and consistent performance is the supreme virtue.

Annual Fund Ratings

The honor roll

By Spyros Manolatos

WOULD THAT choosing a mutual fund were as easy as picking a bank certificate of deposit. If this CD pays 9% compounded and that one pays 10%, you take the 10% so long as both carry FDIC guarantees.

Some people do pick funds that way, as if they were shopping for a bank account. This fund was up 16% for the past few years and that one only 12%, so I want the 16% one. That's the dumb way to invest.

Remember, funds, unlike CDs or bonds, do not pay any contractual return. "Past performance," the prospectus always says, "is not representative of future results." Boy, is that ever true! Past performance is only a weak indicator of future results.

The intelligent investor looks at how far a fund got in past years, but, more important, at how it got there. How much risk did the manager take along the way? How does the fund perform in bear markets? What if I need money when the market is down? How consistently has it done, in bull markets and bear, in foul weather and fair?

Stockholders have been blessed for the last six years with a powerful bull market punctuated by a few interruptions. The interruptions were severe enough to do a lot of damage to anyone who panicked or who happened to need cash at an inopportune time. There was the big crash three years ago, and now there is a correction that began in mid-July, accelerated by the invasion of Kuwait and maybe the start of a serious bear market. Today a runaway dictator ties up the world's oil supply. Tomorrow we get a rise in the prime rate or a new tax on securities. You want a fund that has a good record of withstanding shocks like these as well as a good record of producing gains over the long haul.

To get on the FORBES honor roll, a fund had to have both. It had to roughly triple an investor's money over the

Fund/distributor	Performance UP —markets—	Performance DOWN —markets—	Lead manager (years)	Average annual total return[1]	Hypoth investr resul
Bergstrom Capital/closed-end	C	A	Erik E. Bergstrom (14)	18.2%	$40,4
Dodge & Cox Stock Fund/Dodge & Cox	A	B	Multiple managers[7] (9)	16.3	33,4
Fidelity Destiny Portfolio I/Fidelity Distributors	A	B	George Vanderheiden (10)	18.9	33,4
Franklin Growth Fund/Franklin Distributors	B	B	Jerry Palmieri (25)	15.3	34,5
Guardian Park Ave Fund/Guardian Investor Services	A	B	Charles Albers (18)	17.0	30,8
IAI Regional Fund/IAI Funds	A	B	Julian P. Carlin (10)	16.8	32,9
Investment Co of America/American Funds Group	B	A	Multiple managers[7] (7)	16.7	30,6
Lindner Fund/Lindner Management	D	A+	Multiple managers[7] (9)	18.8	38,6
Mutual Benefit Fund/Mutual Benefit Financial Services	A	B	Multiple managers[7] (7)	17.0	32,8
New England Growth Fund/New England Securities	A	B	G. Kenneth Heebner (14)	18.5	36,69
Nicholas Fund/Nicholas Co	C	A	Albert O. Nicholas (21)	16.7	35,90
Phoenix Growth Fund/Phoenix Equity Planning	B	A	Robert Chesek (10)	22.1	45,81
T Rowe Price International Stock/T Rowe Price Associates	B[9]	B[9]	Martin G. Wade (10)	18.0	37,53
Salomon Brothers Opportunity[10]/Salomon Brothers	C	B	Irving Brilliant (11)	15.4	31,70
Selected American Shares/Prescott, Ball & Turben	D	A	Donald A Yacktman (7)	15.4	29,76
SLH Appreciation Fund/Shearson Lehman Hutton	B	B	Harold L. Williamson (8)	15.9	34,43
SoGen International Fund/Sogen Securities	C	A+	Jean-Marie Eveillard (12)	17.5	30,96
Source Capital/closed-end	D	A+	George H. Michaelis (18)	16.7	31,39
United Income Fund/Waddell & Reed	A	A	Russell E. Thompson (11)	19.1	35,40
Washington Mutual Investors/American Funds Group	B	A	Multiple managers[7] (9)	17.8	34,09

[1]From 11/30/80 through 6/30/90, before deducting loads and taxes. [2]Value on 6/30/90 of $10,000 invested 11/30/80, after load and taxes, for hypothetical upper-income in Assumptions: Investor has $100,000 of gross income in constant 1984 dollars, deductions equal to 20% of income—15% after 1986—and four exemptions. Loads applied at 6 rate. [3]Average of price/earnings ratios for stocks in portfolio as of 3/31/90, weighted by size of holding. Source: CDA Investment Technologies. [4]Lesser of security sa purchases, divided by average net assets. [5]Most funds have lower minimum requirements for IRAs and automatic savings plans. [6]Closed-end funds have no loads, but hypot results column assumes a 1% brokerage fee to buy shares. [7]Average tenure of managers, with 9.6 years maximum credit for each. [8]Operates as a cont

ast three market cycles (not uite ten years). This score, hown below in the column laeled "Hypothetical investment esults," is not very different rom what other publications use o rate funds. But we have a secnd requirement that considerally toughens the competition. he fund had to do well in bear narkets, earning a B or better.

The Lindner Fund is among the op three honor roll funds in bearnarket performance, with an A+ rade over a measurement period nded June 30. A few weeks later ts shareholders got another dose f bear markets. Between July 17, vhen the Dow closed just below 000, and Aug. 9, the overall marcet (as measured by the S&P 500) ell 7.3%. Lindner was off only 2.8%.

Comanager Robert A. Lange exlains his strategy: "We are not doing nything different now. You houldn't be buying stuff unless you et a good deal." A good deal to him is company trading cheaply relative to ts earnings or its breakup value. Beause he couldn't find enough barains Lange had a quarter of Lindner's ortfolio in cash at June 30, which elped cushion his shareholders when raq invaded. Among his biggest holdings are Norsk Hydro, a Norwegian natural gas company, Texaco and Mobil. "We bought these stocks a while ago, and they were acting well even before the crisis," he says.

Patrick McDonnell

To qualify for the honor roll, a fund must have started before Nov. 30, 1980, the beginning of the three market cycles over which we calculate hypothetical investment results. This requirement disqualified the Mexico Fund (started in 1981) even though it received one of the rarest of grades, a double A+. Also, sector funds are excluded.

Another requirement is continuity in management. Fidelity's Magellan Fund was on every honor roll between 1982 and 1989. It was kicked off this year when manager Peter Lynch retired and Morris Smith came on board. We require the lead manager to have at least two market cycles (seven years) in the saddle.

What about funds managed by committees? They are allowed on if the average tenure of the managers is at least seven years. Two committee-run funds from the American family—Investment Co. of America and Washington Mutual—are winners, and two others narrowly missed: Fundamental Investors and New Perspective. In calculating average tenure we allow a maximum experience of 9.6 years (the duration of our three market cycles) for any one member.

As in previous years we left out funds closed to new investors. Vanguard Windsor, CGM Capital Development and Sequoia Fund would have qualified otherwise. IAI Regional Fund should have been on our 1989 honor roll and so is credited here with a second year. ■

ets	Maximum load	Annual expenses per $100	Weighted average P/E[3]	% of assets in cash	Portfolio turnover[4]	Minimum initial investment[5]	Fund (consecutive years on honor roll)
	NA[6]	$0.97	28	5%	36%	none	**Bergstrom Capital (7)**
	none	0.65	15	5	4	$1,000	**Dodge & Cox Stock Fund**
	NA[8]	0.56	12	7	81	NA	**Fidelity Destiny Portfolio (8)**
	4.00%	0.72	15	11	2	100	**Franklin Growth Fund (2)**
	4.50	0.68	13	7	47	1,000	**Guardian Park Ave Fund (3)**
	none	1.00	18	27	116	5,000	**IAI Regional Fund (2)**
	5.75	*0.52*	15	20	18	250	**Investment Co of America**
	none	0.62	9	26	19	2,000	**Lindner Fund (2)**
	4.75	1.45	16	16	14	250	**Mutual Benefit Fund (2)**
	6.50	*1.22*	11	10	203	1,000	**New England Growth Fund (6)**
	none	0.82	15	9	21	500	**Nicholas Fund (9)**
	6.90	1.04	15	13	180	500	**Phoenix Growth Fund (2)**
	none	1.05	NA	14	48	2,500	**T Rowe Price International**
	none	1.26	16	17	8	1,000	**Salomon Brothers Opportunity (2)**
	none	*1.08*	16	8	46	1,000	**Selected American Shares (2)**
	5.00	0.89	17	13	24	500	**SLH Appreciation Fund (5)**
	3.75	*1.38*	15	26	31	1,000	**SoGen International Fund (2)**
	NA[6]	0.96	12	21	36	NA	**Source Capital (2)**
	8.50	0.69	14	3	61	500	**United Income Fund (2)**
	5.75	*0.69*	13	5	7	250	**Washington Mutual Investors**

quiring monthly investment, with a decreasing load as investment grows. Hypothetical investment result assumes a single investment of $10,000 on 11/30/80, with % simulated load that reflects both sales and account maintenance charges. [9]Grades for foreign funds depend on performance against other foreign funds over the since Sept. 1982, but hypothetical and long-term returns are measured over the same period as for domestic stock funds. [10]Formerly Lehman Opportunity. *ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* NA: Not available or not applicable.

Great design does

Our glasses are designed to bring out the best in a beverage. "Excelsior," our prize-winning stemware series, is a good example.

Nature has ingeniously created the shapes and colors of flowers to appeal to the taste of "guests" needed to preserve the species.

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ppen by chance.

Nature has brought forth over 200,000 varieties of flowers. At first glance, the opulent diversity of their shapes and colors appears haphazard. But if you take a closer look, you'll discover that not a single detail has been left to chance. Blossoms designed to attract bees have a shape different from those which appeal to butterflies' tastes.

_____ Like nature's flowers, our glassware is carefully styled to bring out the best in a beverage. Sipped from differently shaped wine glasses, the same wine will have a different taste. And what would happen to the exquisite taste of a fine cognac if it were served in a clunky beer mug?

_____ Our customers' personal tastes in style are as important as the design of our glassware. You may appreciate the simple, classical shape. Or prefer the festive sparkle that polished lead crystal lends to an elegantly set table. Or perhaps you enjoy finely cut lead crystal. Our line of crystal, featuring over 7,000 designs is so varied that it is certain to please the most discriminating taste. Glassware from Schott Zwiesel has won many awards for excellence in design.

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Nobody knows more about glass.

It happens again and again: A money manager's dice are hot and then they turn cold. So don't buy into a fund just because it was hot last year.

Tortoises versus hares

By Michael Fritz

STANLEY SALVIGSEN, Charles Minter and Michael Aronstein, the ex-Merrill Lynch threesome behind money manager Comstock Partners, looked like geniuses in 1987. They predicted that interest rates would rise enough to undermine the stock market and then resume a long decline. They were right. As adviser to the Dreyfus Capital Value Fund, Comstock hedged the fund against the October crash, enabling it to earn 35% for the year, against 5% for the S&P 500.

In May 1988 Comstock's partners decided to try their hand at the bond market. Investors showered $1.3 billion on the Comstock Partners Strategy Fund, buying shares of this closed-end bond fund at $10 each, including a 65-cent sales commission. Everybody wanted on board an outfit that could predict things like the 1987 crash.

Comstock rolled the dice again. This time the partners figured that deflation was coming, and loaded up on 30-year noncallable government bonds and zero coupon Treasurys. Good call. In last year's fund survey the fund showed up with a 20.6% total return for the 12 months through June 30, 1989, double that of the average bond fund.

But last winter the partners' dice went cold. Comstock was still heavy in long-term bonds when interest rates turned around and started rising. The partners turned bearish, but not before getting hit with huge capital losses on their zeros. Still bearish, they missed the second-quarter rally. For the first half of the year the fund's total return was –3.4%, in the bottom 3% of all taxable bond funds.

The partners are back at the betting table. All the while maintaining a bearish stance on government bonds—where their holdings are hedged with put options—they have dipped into foreign currency plays. Now 25% of fund assets are in foreign government paper from Canada, the U.K., France, Australia and New Zealand. If rates rise and the dollar sinks, this fund could land in the performance hit parade once again. If interest rates fall and the dollar rises, the fund will be in the cellar once again.

Investors who bought the fund when it came out have had a bumpy

Annual Fund Ratings

ride. Their $10 shares recently trade on the New York Stock Exchange fo 9⅛, and they have collected $2.42 share in dividends. But they woul have done just as well in the Vanguar Ginnie Mae Fund, and the ride woul have been a lot smoother. If you thin of the Comstock Fund as a hare, yo have to concede that the turtles got t the goal just as fast as the hare did– and at less cost.

For the Comstock partners, thi crap game is lucrative. Their advisor fees roll in steadily at a rate of nearl $6 million a year. But what about th customers? So far they haven't bee especially well rewarded for the risk they've taken and the relatively hig fees they pay.

The moral: One or two good calls d not make a money manager into genius. Look for consistent perfor mance, over at least one market cycle Don't buy an expensive fund—that is one with high annual expenses and/o a sales load—on the strength of a re cent spurt of good performance. Th spurt likely is as much luck as skill.

For our table of superior bond fund

Bond funds that deliver

Below is a sampling of bond funds that have beaten their peers over one or two market cycles. All are no-load and hold expense ratios to 1%.

Fund	Type	Performance UP markets	Performance DOWN markets	Cycle return (annualized)[1]	Annual expenses per $100
Lincoln National Income	corporate	C	A+	12.6%	$0.96
Transamerica Income Shares	corporate	A	D	12.6	0.71
Federated GNMA Trust	Ginnie Mae	B	C	10.8	0.53
Vanguard Fixed Income—GNMA	Ginnie Mae	B	C	11.0	0.31
Fidelity High Income Fund	junk	C	A	9.3	0.81
Vanguard Fixed Income—High Yield	junk	C	B	9.5	0.38
Fidelity Intermediate Bond Fund	short-term	D	A	10.1	0.72
Vanguard Fixed Income—Short-Term	short-term	C	A	9.4	0.28
Financial Tax-Free Income Shares	municipal	A+	F	10.5	0.74
Safeco Municipal Bond Fund	municipal	A	C	10.5	0.57
USAA Tax-Exempt Fund—Short-Term	muni-short	F	A+	6.7	0.52
Vanguard Muni Bond—Short-Term	muni-short	F	A+	6.1	0.27
Safeco California Tax-Free Income Fund	muni-Cal	B	F	3.5[2]	0.69
Scudder California Tax Free Fund	muni-Cal	B	C	3.6[2]	0.83
Fidelity NY Tax-Free—High Yield	muni-NY	C	C	3.4[2]	0.61
Scudder NY Tax Free Fund	muni-NY	C	C	3.3[2]	0.89

[1]Apr. 30, 1983–June 30, 1990. [2]Aug. 31, 1986–June 30, 1990.

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we selected on the basis of both cost and consistent performance. We looked for funds in each of several categories that combine good returns over two interest rate cycles (Apr. 30, 1983 to June 30, 1990) with low costs.

The letter grades assigned to bond funds should be understood as both a measure of performance and a measure of interest-rate risk. Short-term bond funds get poor grades in bull markets (that is, when interest rates are falling) and good grades in bear markets. Long-term funds have the reverse pattern. Before buying a bond fund you must, of course, decide where you want to stand on the interest-rate curve. If you don't have a strong feeling about where interest rates are headed, then a Ginnie Mae fund is a good middle-of-the-road choice. It will probably do worse than a long-term fund in a bull market and better in a bear market. ■

Look before you leap into a "government" fund or money fund. Some are exempt from state income taxes, others aren't.

Why pay unnecessary taxes?

By David Churbuck

STATE INCOME TAXES are high and going higher, especially in high-spending, high-taxing states like New York, California and Massachusetts. There is even talk in Washington of limiting the federal deduction for state income taxes. If that happens, what your state takes away from your dividend check comes right off the bottom line. Obvious solution: Buy U.S. government bonds. They have been exempt from state taxation since 1819.

Since selling a Treasury bond before its maturity date can be expensive and sometimes awkward, most investors are wise to buy Treasurys through mutual funds, even at a slight loss in income. A no-load U.S. government fund gives you much better liquidity than a bond, plus all the tax advantages. Or does it?

Watch out. The trick is picking the right fund for your state's tax code. Pick the wrong one and live in the wrong state, and you could be in for a big surprise come tax time.

First trap: A lot of so-called government bond funds invest not in direct government debt but in other paper that is merely guaranteed by the federal government. The portfolio of the Value Line U.S. Government Securities Fund is 86% invested in Ginnie Maes, fully taxable by the states. Indeed, a lot of Ginnie Mae funds masquerade as "government" funds.

Some federal agency paper is state-tax-free, other isn't. Tennessee Valley Authority bonds are considered a direct U.S. obligation and are therefore exempt. So are bonds from the various agencies bailing out banks and thrifts. But Fannie Mae and Freddie Mac bonds are taxable.

Next problem: It's next to impossible to get clear guidance from a fund sponsor about the fund's tax status. The number that you want is the percentage of income derived from direct U.S. government obligations. That should be simple enough, but the service representatives at the end of an 800 number usually don't know or can't tell you.

Instead, ask if the fund sends its investors at tax time a statement showing the percentage. If the answer is no, request the portfolio (usually in a semiannual financial statement, not in the prospectus) and go over it carefully with a list of acceptable bonds at hand. Generally, mortgage-backed federal issues are taxable by the states and nonmortgage issues aren't.

Next problem: States that recognize payouts from U.S. Treasury funds as exempt typically demand that a minimum 50% or 80% of the payout be derived from Treasury interest, or none of it is exempt.

Finally, six states play it rough and tax in full any dividend from any incorporated fund, never mind where the interest came from. Their argument is that these are dividends from fund companies, not interest from government bonds. Leading the list is Connecticut, whose top income tax rate (14%) is the highest in the land. The other five offenders are Delaware, Mississippi, North Dakota, Pennsylvania and Tennessee. The solution if you dwell in one of these six offending states: Buy a bond fund organized as a limited partnership, such as Dreyfus U.S. Government Bond L.P.

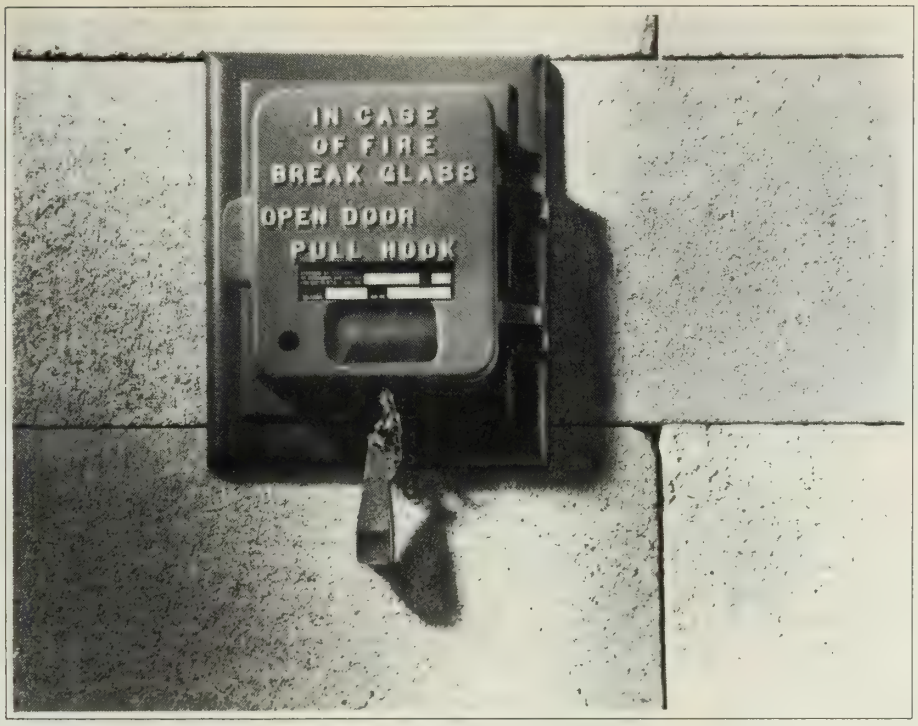
Unfortunately, recent federal legislation forbids new limited partnership bond funds. Also, after 1997, grandfathered funds will effectively lose their partnership status. At that point hapless savers in Connecticut will be cornered. They'll have to buy their Treasury bonds directly and give up the many advantages of investing through a mutual fund. ■

State-tax-free, mostly

"U.S. Treasury" in a fund's name is no guarantee that its dividends are exempt from state tax.

Fund	% direct U.S. obligations	Annual expenses per $100
Dreyfus US Govt Intermed Secs LP	98%	$0.80
Dreyfus US Guaranteed MM	98	0.73
Dreyfus US Govt Bond LP	100	0.00p
Fidelity Government Secs	100	0.73
Neuberger & Berman Ltd Maturity	26	0.65p
Value Line US Government Secs	2	0.67
Vanguard Fixed Income—US Treasury	88	0.28
Vanguard MM Reserves—US Treasury	58	0.30

p: Net of absorption of expenses by fund sponsor.



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IT PAYS TO BE CAREFUL.

Shearson's Multiple Opportunities fund has been a disappointment for investors, but not for Shearson, which has raked in $53 million in fees and commissions.

Annual Fund Ratings

The high cost of high costs

By Ruth Simon

HERE'S A NEW ANGLE in performance fees for money managers: The worse the managers do, the more money they make.

That sounds crazy, but it is, to a degree, the perverse outcome of Shearson Lehman Hutton's Multiple Opportunities Portfolio, L.P. This fund, launched with fanfare in March 1987, took in some $500 million within five months. The investors weren't your widow and orphan types; the fund's minimum stake was $100,000. Investors were apparently attracted by the fund's proposal to use not one but six investment advisers and to give them a flexibility few funds offer. But performance has been so weak that investors have exited in droves. Less than half the original $500 million remains in the fund. As they leave, the unfortunate investors leave some of their money behind. The fund levies an "exit fee" that amounts to 3% of net asset value in the first year and gradually declines to zero after six years. So far Shearson has pocketed $9.3 million in exit fees.

Besides the exit fee, Shearson collects management fees and various expenses totaling 3% of assets annually. Then there are brokerage commissions on the fund's trades. Shearson collected more than 80% of the brokerage commissions paid out to brokers by the fund, or $10.6 million, over the last three years. Total Shearson take from fees, expenses and commissions: $53 million.

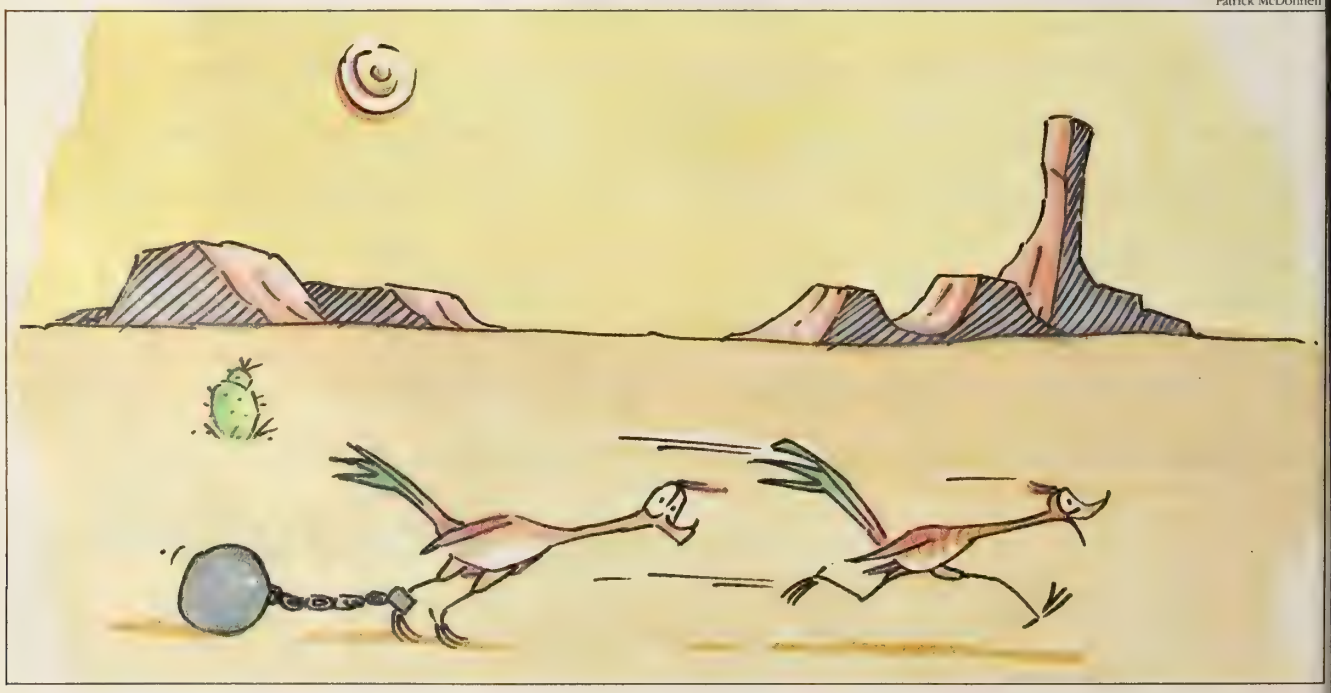
It is very hard for the investor to come out well when so much is coming off the top—even if the fund's stock pickers and timers do well. The Shearson fund's total return—reflecting all fees except the exit load—ha averaged just 7% a year, 3 poin worse than the S&P 500. Without th fees it would have tracked the marke

Why did the fund sell so well at th start? Because of its unusual natur The portfolio is parceled out amon several experts at Shearson. The mar agers can go short, buy junk bonds an foreign and domestic stocks, writ put and call options and play the com modity and foreign exchange mar kets. And as a limited partnership Multiple Opportunities is exemp from the tax law that prohibits mutu al funds from getting more than 30% of their income from gains on posi tions held less than three months.

With all that flexibility and its tean of wizards, the fund should alway beat the S&P 500 and never have down year. That's what chief invest ment strategist Michael Sherman tol *Fortune* three years ago.

Clearly, Sherman was seeking t capitalize on a persistent investmen myth. It's the fairy tale that says som clique of sophisticates out there ha access to exotic trading technique not available to common folk, an that the lucky fellow who is invite into their circle will earn outsize returns. In fact, futures and option are a zero-sum game. Your manage will make money from them only i some other manager loses. In that sense, exotic investment vehicles are

Patrick McDonnell



IT'S STARTING TO SOUND LIKE MERCEDES-BENZ IS ENGINEERED LIKE ONE OTHER CAR IN THE WORLD.

It's curious.

Mercedes-Benz claims to be engineered like no other car in the world. Yet recently, they've spent millions of dollars emphasizing such attributes as safety, durability, and longevity.

Qualities long associated with another car maker.

Volvo.

Which is why, if you've been thinking about buying a Mercedes, you'd do well to consider a Volvo 760. Like all Volvos, the 760 embodies all the traditional Volvo values.

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In short, the Volvo 760 is engineered to be everything a Mercedes is. And, clearly, everything a Mercedes wants to be.

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to department

until finally

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worse than plain old stocks, which at least pay dividends and tend to appreciate over time.

What did Shearson's customers get for all the sophistication of the fund's investment strategies? The fund's hedges helped it weather the 1987 crash, with a loss of only 1% in the fourth quarter of 1987. But, like so many market timers, the fund more than lost on the rebound what it saved in the crash.

Have customers learned their lesson? Perhaps, but there's a new customer born every minute. Shearson brokers have another one of these things to sell. The Advisors Fund L.P., a fund of funds, has raised $180 million since it was introduced in May. Minimum investment: $25,000. (The 1987 tax law limits use of the limited partnership format for funds, but Advisors was grandfathered.)

Like Multiple Opportunities, Advisors parcels out money to several portfolio managers, the main difference here being that the portfolio experts aren't Shearson employees. One thing that hasn't changed is the burdensome cost structure. Including fees paid to the outside money managers, Advisors is going to run an annual expense ratio of about 2.8%. On top of that there is a 5.5% front-end load to get in.

"We're giving investors access to high-quality hedge-fund managers at a price, and with diversity available only to the very richest," boasts Shearson executive Robert Schulman, who developed the fund.

Hedge funds are not registered with the Securities & Exchange Commission and are open only to rich people. The mere fact that they are exclusive doesn't mean that they are good, however. The three Advisors Fund managers with five-year records—Hellman, Jordan, McKenzie, Walker and Nicholas-Applegate—have done worse than the S&P 500 over that period, according to performance figures compiled by CDA Investment Technologies.

Like hedge funds, Shearson's fund has a performance bonus built into the fee. The base portfolio management fee of 2% goes as high as 4% if the fund beats the S&P by 10 percentage points or more, and drops to zero if the fund lags the S&P by 4 points or more. This has a certain sales appeal: We make money only if you do. But a close look at the arithmetic shows that this isn't much of a deal for the investor, unless the five managers do extraordinarily well.

Suppose, for example, that the market alternates bear years of 6% total returns and bull years of 16% returns. And suppose the experts beat the market by 7 points in bull years and lag it 7 points in bear markets, before fees. That is, they just about track the market on average. Over time the market would average a compound annual 10.8%. Advisors' customers would average a return, after costs, of 8.2%. They would be paying 2.6% a year and getting mediocrity. Don't worry, Shulman says: "The fund is going to do 10% better than the S&P, no matter what the market does."

You don't need to pay anything like 2.6% a year to get good management. The efficient funds in the table have costs averaging well under 0.4% a year. And for fees only a little higher you have access to most of the excellent funds on our honor roll (p. 126). These funds let investors with small sums get the same high-quality management that wealthy investors get. That's the beauty of the mutual fund industry.

Our advice to investors, novice and experienced alike: Stay away from complicated investment vehicles; most of them are just an excuse to levy fat fees. Stick with plain old professionally managed, diversified funds with modest management charges and little or no sales loads, and you won't go far wrong. ■

The most efficient funds

A stingy expense ratio and low turnover don't guarantee good results, but they sure help. All 29 funds shown here have turnover below 100% and assets over $100 million. As in past years, Vanguard dominates the list.

Fund	Type	Assets ($mil)	Portfolio turnover[1]	Annual expense per $10
Vanguard Index–500 Portfolio	stock	$2,368	8%	$0.20
Vanguard Index–Extended Market	stock	185	14	0.23
Salomon Brothers Fund	stock	1,021	30	0.44
Vanguard Windsor II	stock	2,510	22	0.48
Vanguard Asset Allocation	stock	178	1	0.49
Vanguard/Morgan Growth Fund	stock	756	27	0.51
Quest for Value	stock-dual[2,3]	538	76	–0.78
Convertible Holdings	balanced-dual[2,3]	265	50	–1.63
Vanguard Wellington Fund	balanced	2,331	30	0.43
Vanguard Equity Income Fund	balanced	425	8	0.44
Vanguard Trustees Commingled–Intl	foreign	820	25	0.46
ASA Limited	foreign[2]	552	3	0.51
Vanguard Bond Market Fund	taxable bond	171	33	0.24
Vanguard Fixed Income–US Treasury	taxable bond	528	83	0.28
Vanguard Fixed Income–GNMA	taxable bond	2,318	9	0.31
Vanguard Fixed Income–Invest Grade	taxable bond	1,082	70	0.34
Vanguard Fixed Income–High Yield	taxable bond	905	41	0.38
Vanguard MM Reserves–Federal	money market	1,751	NA	0.30
Vanguard MM Reserves–Prime	money market	12,618	NA	0.30
Kemper Money Market Fund–Govt Secs	money market	808	NA	0.45
Merrill Lynch Institutional Fund	money market	1,667	NA	0.45
Vanguard California T-F–Insured L-T	tax-free	324	3	0.23
Vanguard New York Insured Tax-Free	tax-free	214	10	0.30
Vanguard Penn Tax-Free–Insured L-T	tax-free	501	8	0.24
Vanguard Municipal Bond Fund[5]	tax-free	4,993	63	0.27
Vanguard NJ Tax Free–Money Market	tax-free money market	381	NA	0.22
Vanguard Penn Tax-Free–Money Market	tax-free money market	618	NA	0.22
Vanguard California Tax-Free–MM	tax-free money market	639	NA	0.22
Vanguard Muni Bond–Money Market	tax-free money market	2,386	NA	0.27

[1]Lesser of security sales or purchases, divided by average net assets. [2]Closed-end. [3]Performance, asset and expense data on capital and income shares treated as a unit. [4]Recent expense ratio minus the annualized benefit from the closing of the discount to net asset value when fund is liquidated within seven years. Assumes 1% brokerage commission on purchases. [5]Represents total assets of six portfolios: High Yield, Insured Long-Term, Intermediate, Limited Term, Long-Term, Short-Term. NA: Not applicable.

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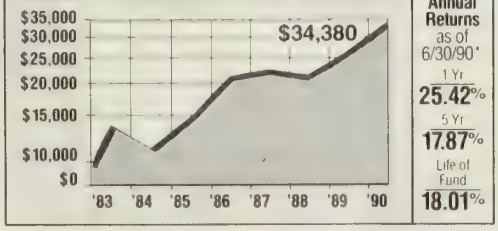
Choose Fidelity for Stock Market Expertise.

Fidelity is America's leading stock fund manager, investing over $30 billion in equity assets for over 1 million Americans.† Investors who are looking for long-term growth from funds backed by *over forty years* of money management experience. Through the years the goal has remained simple: To do exactly what you would do for yourself if you had the time and resources.

Fidelity Magellan™ Fund. Magellan follows the search for growth wherever it leads–to companies both large and small, at home or abroad. It's getting to know the companies we invest in personally–the same driving force behind all of Fidelity's stock funds–that has helped make Magellan the largest stock fund in the nation.†

Fidelity Growth Company Fund. Seeking high returns from America's growing companies, this fund looks for firms both large and small that have demonstrated strength in sales and earnings and are growing at rates above the market average. It's a strategy that has delivered superior returns–just look at the results!



Growth in value of historical $10,000 investment made on 1/17/83 through 6/30/90.*

Fidelity Low-Priced Stock Fund.
America's only fund to focus exclusively on low-priced stocks–the "hidden values" in today's stock market. These stocks are generally overlooked by Wall Street, and often, as a result, may offer outstanding opportunity. Look to Fidelity for the dedication of resources and expertise to find those low-priced stocks ready to become tomorrow's success stories. **No sales charge.**

Call Fidelity today for more information on Magellan and Growth Company Funds' 3% sales charge and Low-Priced Stock Fund's 1.5% redemption fee on shares held less than 90 days and the Funds' management fees and expenses, call or write for a free prospectus. Read it carefully before you invest or send money. Minimum initial investment for each fund is $2500 or $500 for your IRA or Keogh. Share price and total returns will vary and you may have a loss or gain when you sell your shares. Fidelity Distributors Corporation (General Distribution Agent). P.O. Box 660603, Dallas, TX 75266-0603.

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*Fund total returns for period ending 6/30/90 are historical and include change in share price, reinvestment of dividends and capital gains, and the effect of the fund's 3% sales charge. The fund started on 1/17/83. Past performance is no guarantee of future results. †According to Lipper Analytical Services, Inc., an independent mutual fund performance monitor.

CODE: FORB/GRO/090390

Some of the best-managed funds available have a big drawback: a sales commission. But sometimes you can easily avoid all or most of that commission.

Discount loads

By Christopher Palmeri

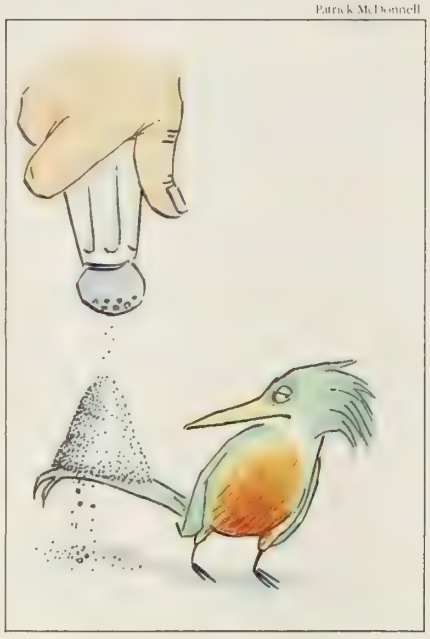
MOST PEOPLE who would rather make their own investment decisions than ask a broker for help, and who are careful never to waste a dollar, stick to no-load funds. Why pay a sales commission as high as 8.5% to get into a fund when there are so many no-load funds around? Paying an 8.5% charge means the fund has to gain nearly 10% before you break even. But shunning load funds can leave some excellent funds out of reach—the Templeton and American funds, for instance.

Good news for penny-watchers: It's possible to get these load funds and a large number of others with little or no load. There are several ways to erase, or all but erase, a sales commission. One is to buy a fund through your employer's thrift plan. Another is to invest a very large sum. A third is to be a member of some group affiliated with the sponsor in some way.

Suppose, for example, you wanted to get into the Pacific Horizon Aggressive Growth Fund. This fairly new fund (not yet rated in FORBES) is off to a good start, with a five-year return in the top 15% of all domestic stock funds. Turned off by the 4.5% sales charge? The prospectus outlines several classes of people who are exempt: those buying it through a corporate thrift plan, those who have opened an Individual Retirement Account at the fund's sponsor, Security Pacific Bank, and customers of "a discount broker-dealer, which imposes a transaction charge."

Charles Schwab & Co. is the principal beneficiary of this provision. It maintains one big account with each Pacific Horizon fund and runs trades by Schwab customers through this omnibus account, charging $64 for each buy or sell order of $10,000. That comes to a big saving over the standard load charge. (Unfortunately, Schwab has similar trading arrangements with only about 20 funds.)

Patrick McDonnell



Annual Fund Ratings

A more traditional way to beat the load involves volume discounts which are more accessible than you might think. In the main tables that begin on page 177, we show the maximum sales charge for every fund. In the table below we show the minimums for a selection of excellent funds. These minimums can be triggered for investments as low as $500,000.

You can, for instance, get into the American Funds family (maximum load, 5.75%) with no load, by plunking down $1 million. That's a large sum, but it can be divided among various funds in the fund family and various owners and trusts within your family.

John Templeton's famous Growth and World funds have always carried a stiff 8.5% maximum load, but the load drops to 0.5% for purchases over $2 million. For a wealthy investor planning to stay in the fund for five years, that's no worse than an extra 0.1% a year tacked onto the annual expense ratio. Note that both of these funds have a bargain expense ratio of 0.7%, half the average for stock funds. In short, for the right buyer, these Templeton funds are every bit as economical as a good no-load. ■

Get them wholesale

The ten funds below have strong performance records, low expenses, and deep discounts on their loads if you are willing to invest enough money.

Fund	Performance UP markets	Performance DOWN markets	Annual expenses per $100	Load Maximum	Load Minimum
Cardinal Fund	C	A	$0.71	8.50%	1.00%
Fundamental Investors	A	B	0.67	5.75	none
Lutheran Brotherhood Municipal	B	B	0.86	5.00	0.50
Nationwide Fund	B	B	0.63	7.50	0.25
New Perspective	B	B	0.76	5.75	none
Pacific Horizon Aggressive Growth			1.51	4.50	none
Templeton Foreign	B	A	0.81	8.50	0.50
United Income	A	A	0.69	8.50	none
United Vanguard	B	B	0.96	8.50	none
Washington Mutual Investors	B	A	0.69	5.75	none

Sources: Morningstar Inc.; FORBES.

THE NEW CESSNA CITATION VI.

For many companies, the only thing nding between them and the stand-up oin and performance efficiency of a dsize jet has been price.

Now, Cessna removes that hurdle with e introduction of the new Citation VI.

At a cost of $6.8 million, the Citation is certainly attractive for its price alone. But this aircraft offers you so much more.

The Citation VI gives you an eight- to n-passenger cabin with nearly six feet stand-up cabin height, and plenty of room.

There's also a fully equipped, private atory. A refreshment center with warming oven. And an externally accessible luggage compartment.

The Citation VI is built for comfort. And speed.

With a cruising speed of 543 mph, time flies when you fly a Citation VI.

But speed is only one of the time-saving attributes of the VI. Certified to fly as high as 51,000 ft., the VI takes you over turbulent weather instead of detouring around it.

And the wing of the VI gives it outstanding lift at lower speeds, allowing you to land at most airports once thought to be the exclusive turf of smaller aircraft.

At $6.8 million, no midsize jet offers you more for less than the Citation VI.

The Citation VI offers you all the midsize jet you could want – for a lot less than you'd expect.

To find out more, call Roy H. Norris, Senior Vice President of Marketing, at 1-800-4-CESSNA, or write Citation Marketing, Cessna Aircraft Co., P.O. Box 7706, Wichita, KS 67277.

THE MIDSIZE CITATION VI

Cessna
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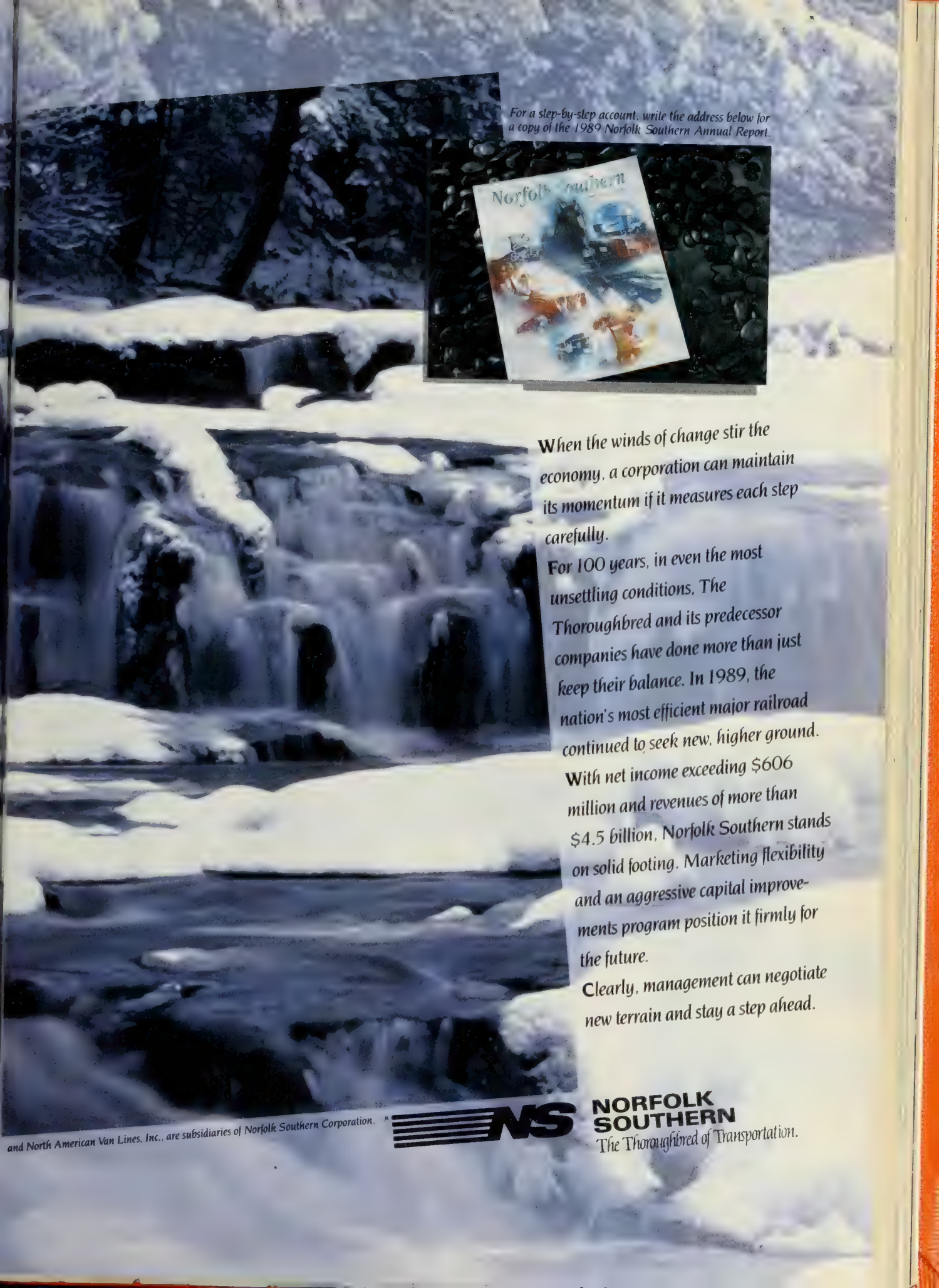
For a step-by-step account, write the address below for a copy of the 1989 Norfolk Southern Annual Report.
When the winds of change stir the economy, a corporation can maintain its momentum if it measures each step carefully.
For 100 years, in even the most unsettling conditions, The Thoroughbred and its predecessor companies have done more than just keep their balance. In 1989, the nation's most efficient major railroad continued to seek new, higher ground. With net income exceeding $606 million and revenues of more than $4.5 billion, Norfolk Southern stands on solid footing. Marketing flexibility and an aggressive capital improvements program position it firmly for the future.
Clearly, management can negotiate new terrain and stay a step ahead.
and North American Van Lines, Inc., are subsidiaries of Norfolk Southern Corporation.
NS
NORFOLK SOUTHERN
The Thoroughbred of Transportation.

Taking imaginations for a ride

It's the Loch Ness Monster roller coaster . . . a wild sports car chase through the streets of Paris. . . an intergalactic Starfighter. The SR2 simulator is all those things and much more, thanks to a unique motion-control system using advanced electrohydraulic components from Parker.

Go for a fast ride standing in one place

Manufactured by Doron Precision Systems, Inc., the SR2 simulator is a stationary unit capable of creating the sensation of virtually any ground, water, or air/space vehicle. Since 1978, millions of people have enjoyed the various thrilling SR2's experiences in over 15 countries throughout the world.

As a star in the entertainment field, the SR2 offers a spectacular array of rides that can be changed as needed to offer new thrills to repeat customers. And central to the magical motion of the SR2 is the down-to-earth motion-control expertise of Parker.

Parker systems help make the experience real

By working closely with Doron at the initial design stages, Parker was able to develop and manufacture hydraulic components and systems to allow the SR2 a full and exciting range of motion. In addition, Parker supplied the hoses, connectors, filters, cylinders, and many other related products to assure the SR2 of safe, reliable, and economical operation on a demanding daily basis.

Of course, Parker was a logical choice for this important task since our products are already in use on the highly sophisticated flight simulators used to train military and airline pilots.

Dividend performance passes the others

As a $2.38 billion worldwide enterprise, Parker is the largest company in the motion-control industry, with impressive growth potential.

Parker has over 800 product lines in hydraulic, pneumatic, and electromechanical applications. In motion control, no single competitor presents a product line as broad as Parker's.

Our shareholders have benefited from this diversity with 34 consecutive fiscal years of dividend increases and 161 consecutive quarterly dividends.

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A partnership in vital technologies. Parker

'ou can buy a German company because 'veryone is clamoring for Europe, or you 'an buy it because it's cheap. David Fisher 'ses the latter approach.

An international perspective

By Suzanne L. Oliver

DAVID FISHER, ONE of the six portfolio counselors of the New Perspective Fund, was re-:ntly walking through Prague's 'enceslas Square. He was startled to :e an East German Trabant automo-le painted gold and perched on four ephant-size plastic legs. Hanging on ıe awkward beast was a sign reading, 'The only way this car can get around on its legs." That should have made sher feel good. It emphasizes how ıdly Eastern Europe's industries :ed modernizing. All the better for s fund's investments in companies ke West Germany's Bilfinger & :rger, a construction company. rms like this will surely play a ma-r role in rebuilding the Eastern Euro-:an factories that produce such industrial atrocities as the Trabant.

Unlike other funds whose managers rushed into European investments in a fad-following swarm as the Berlin Wall came down, Fisher's New Perspective Fund has been looking at German stocks since it was created in 1973. It bought Bilfinger & Berger in 1985 at an average cost per share of $63, or 11 times earnings. Recently the stock traded at $588.

"We weren't smart enough to know what was going to happen in Eastern Europe, but we were smart enough to see that Bilfinger & Berger was a cheap stock," says Fisher, 50, who has been a portfolio counselor of the New Perspective Fund for 14 years. In addition, he is in charge of international research and comanages two other funds in the $30 billion American Funds Group of Los Angeles-based Capital Research & Management.

Patrick McDonnell

Annual Fund Ratings

New Perspective, active internationally since it was started, now has 49% of its assets in foreign stocks. New Perspective's oldest overseas holding, Lend Lease Corp., dates back to 1975. Indeed, the portfolio has a very low turnover of 29% (against the average stock fund's 89%), which means that investors are not losing money to commissions and bid/ask spreads. Other expenses are held to 76 cents annually per $100 of assets, half the stock fund norm. The maximum sales charge is 5.75%, but you can duck that cost in some cases *(see story, p. 140)*.

Wall Street's eyes are on Eastern Europe—some 20 funds specializing in that part of the world have come out in the past 12 months, according to Michael Lipper, the New York-based fund expert—but Fisher's "infrastructure" theme goes far beyond the Trabant in Wenceslas Square. "It is not just Eastern Europe where tremendous work needs to be done, but China, Thailand, Malaysia, Brazil, Argentina and Mexico," says Fisher. "We really believe that the globalization of the world will continue at a rapid pace."

Among other things, globalization means that the distinction between American multinationals and foreign multinationals is disappearing. "Look at Dow, ICI and Hoechst. Just from the product mix and geographical sales of the companies, you couldn't tell one from the other. The fact that one is based in the U.S., one in the U.K. and one in Germany is virtually immaterial," Fisher opines.

For example, New Perspective has many positions in Swedish stocks, but Fisher points out that only about 25% of the sales of these companies are made in Sweden; they are essentially international companies. So Fisher doesn't feel that the fund is overexposed in Sweden. This global view also works in the research department at American Funds, where analysts follow their industries around the world rather than by region, with the help of research bureaus in Hong Kong, Tokyo, Singapore, Geneva and London.

The firm's analysts pick stocks the old-fashioned way: by reading balance sheets. They compare a company's market capitalization to the price they figure an acquirer would pay for

Why it's important to establish a National E

A "SHORT-TERM" PROBLEM WILL TAKE DECADES AND COST BILLIONS.

Alarmed by the poisoning of our environment at Love Canal and other toxic waste sites, Congress created the Superfund program ten years ago. Superfund was intended to be a short-term cleanup program for the most serious hazardous waste sites across the country.

More than a decade later, it's painfully clear that cleaning up hazardous waste is not a short-term problem for America. It will take many decades and cost hundreds of billions of dollars.

Currently, 1,200 of the most dangerous sites have been selected for priority action. Billions of dollars have been spent, but very few sites have been cleaned up. In fact, only 45.

SO FAR, ABOUT ALL WE'VE DONE WITH HAZARDOUS WASTE IS WASTE TIME AND MONEY.

One problem is that Superfund requires establishing liability–who sent what waste, how much and where. And this has taken priority over cleaning up. With the cost of cleanup at just one site estimated as high as one hundred million dollars, the question of who pays has serious consequences for everyone involved.

At most hazardous waste sites, the operator of the dump caused the environmental harm. But under Superfund,

everyone who used the site is liable for the cleanup bill. The record of users can go back 25, 30 or 40 years and can number in the hundreds. Users can include major corporations, small businesses, local governments, hospitals, nursing homes, schools, even individuals.

For example, at 422 sites almost 14,000 entities have been notified by the government that they could be liable for the cleanup cost. And many of these entities have themselves identified still others.

The result? A bonanza for lawyers and

ut cleanup first and
ironmental Trust Fund.

consultants. And a tragedy for the environment. At some sites, as much as 60% of the money spent goes toward legal expenses in costly and time-consuming efforts to assign liability instead of solving the cleanup problem. An avalanche of lawsuits has resulted, all aimed at getting someone else to pay.

HERE'S AN IDEA THAT DESERVES EVERYONE'S CONSIDERATION.

At AIG, we think it's high time to find a better approach to the problem of cleaning up old hazardous waste sites. One that encourages prompt cleanup and spreads the cost more broadly. And more equitably.

We propose creating a National Environmental Trust Fund similar to the National Highway Trust Fund. Its resources would be used exclusively for cleaning up old hazardous waste sites. The Fund could be financed by adding a separate fee to commercial and industrial insurance premiums in the United States.

Even a modest assessment, say 2% of premiums and an equivalent amount for self insurers, would provide about $40 billion over the next decade, more than enough to deal with the 1,200 highest-priority sites.

A national advisory board of private citizens, industry and public officials could be charged with overseeing the program. We also suggest giving consideration to establishing local technical monitoring committees in each community. These groups would be composed of local citizens, industry and others who would work with the Environmental Protection Agency and the state on the particular cleanup site, from the very beginning of the cleanup effort.

Just think. A new way to finance Superfund's mission without the need for new taxes, a new government agency or expensive and unproductive lawsuits.

WHY IS AIG RUNNING ADS LIKE THIS?

AIG (American International Group) is the largest underwriter of commercial and industrial insurance in America, and the leading U.S.-based international insurance organization. The nature of our business means we deal every day with issues affecting U.S. competitiveness and the future of the world economy.

We've started this dialogue to encourage people like you to help shape the future. Perhaps you'll want to keep the ball rolling by contacting your elected officials, or an environmental or trade group. We hope you will. Shouldn't we stop trying to fix the blame and start fixing the problem?

If you agree with this idea or have thoughts of your own to share, write to Mr. M.R. Greenberg, Chairman, AIG, 70 Pine Street, New York, NY 10270.

AIG World leaders in insurance and financial services.

A portfolio designed by a committee

If one smart money manager can produce superb results, what do you get from, say, four smart money managers? Often, mediocrity. Merrill Lynch's Liberty All-Star Equity Fund and Shearson's Multiple Opportunities Portfolio *(see p. 134)* are cases in point. The relatively poor showings of these two funds call to mind the old saying that a camel is a horse designed by a committee.

But here's a camel that runs like a horse. The rule that committees make poor fund managers has a dramatic exception at Capital Research & Management, a Los Angeles firm that runs the $30 billion American Funds Group family.

Each equity fund's assets are split among four to six portfolio managers. Another portion of a fund's assets is managed by analysts in the 80-person research department—a kind of apprentice system for future fund managers. Fund managers get bonuses based on the performance of their individual pieces of a portfolio, but, as shareholders in this employee-owned advisory company, they also benefit from the group's overall performance.

It's a system that rarely delivers extraordinary performance but does foster a degree of consistency and low risk seen in few other fund groups. American Funds Group has ten stock and balanced funds around long enough (two market cycles, or seven years) to be rated in the FORBES system. Every single one of them gets a B or A grade for downmarket performance. Two of them appear on the honor roll on page 126.

Jon Lovelace, 63, chairman of Capital Research and president of the New Perspective Fund, says investors are better off with a well-trained committee than with a single star. "If one manager leaves the fund, there are four or five others who know what to do," he says. Sponsors are also often better off with committees than with stars. How is Fidelity going to keep buyers interested in Magellan now that Peter Lynch is gone? Capital Research & Management doesn't have that sort of problem.—**S.L.O.**

the whole company. "We have no strict rules about price/earnings, price/book value or price/cash flow ratios," says Fisher. The style is reminiscent of the great John Templeton, who has certain definite, if hard to quantify, notions of value that he applies as readily in Malaysia as in the U.S. or the U.K. The Templeton Growth Fund has multiplied an original stake 120-fold since the fund opened in 1954, although in the past ten years it has fallen somewhat behind New Perspective.

New Perspective's eclectic positions begin with Philip Morris as the largest and range from Singapore Airlines to CS Holding, a Swiss bank, to Hutchison Whampoa of Hong Kong. Whampoa dates back to a 19th-century British trading house. Recently it joined a $3 billion bid for the junk bond portfolio of troubled Columbia Savings & Loan (FORBES, *Aug. 20*).

Capitalizing on the euphoria ove the reawakening in Eastern Europe brokers have rushed a steady strean of new European funds to market. Th best way to invest, though, is not t dive into a wave of euphoria. Don' buy a fund merely because it special izes in some country that was hot las year. Better to pick a fund with record of consistent performance in variety of overseas markets. New Per spective is one of those funds. ■

Lost in the flurry of one-country fund issues, the Irish Investment Fund is trading at a very tempting discount to net assets.

A bargain

Patrick McDonnell

By Michael Fritz

HARRY HARTFORD, manager of the recently launched Irish Investment Fund, peers out the window of his office in the Investment Bank of Ireland's Dublin headquarters. He sees construction cranes dotting the skyline.

Once-sleepy Dublin is waking up, as foreign financial outfits set up operations to take advantage of the country's attractive tax structure. The economy of the Republic of Ireland has come a long way from the dark days of the early 1980s. In the last decade Ireland has pared its budge deficit from 16% of GNP to 2.4% an reined in inflation from 20% to 4% enabling the economy to expand a 3.5% annually.

All this has helped elevate th fledgling Irish stock exchange to sta performer among equity markets. Fo

A New Addition To Vanguard's Family Of Index Funds

INTRODUCING VANGUARD INTERNATIONAL EQUITY INDEX FUND

The growth in international stock markets has considerably outpaced that of the U.S. stock market over the last decade. Almost two-thirds of the world's equity market capitalization now lies outside the United States.

As a result of the dramatic evolution of the European economy and the continuing growth of Pacific economies, considering international stocks as a way to diversify your portfolio makes sound investment sense.

2 Investment Opportunities

The new no-load Vanguard International Equity Index Fund offers two broadly diversified Portfolios, giving you the *flexibility* to customize your own international fund.

You can invest in either the European or Pacific markets—or you can invest in both regions if you choose.

The European Portfolio

This Portfolio seeks investment results paralleling those of the Morgan Stanley Capital International Europe (FREE) Index*—an unmanaged index consisting of the securities of nearly 600 companies in 13 European countries.

The Pacific Portfolio

This Portfolio seeks investment results paralleling those of the unmanaged Morgan Stanley Capital International Pacific Index,* consisting of more than 400 securities from Japan (whose stocks are the major Index component), Australia, New Zealand, Hong Kong, and Singapore.

International investing is not without risk, of course. Foreign stocks exhibit the inherent volatility associated with equity investing. And an investor's return is also affected by both currency risk and country risk.

Plus the 4 Advantages of Indexing

Vanguard—the leader in mutual fund indexing—introduced indexing to the individual investor in 1976, and presently manages more than $3 billion in indexed assets.

The Fund brings the benefits of indexing to individual investors interested in the international area. The Fund seeks to offer:

- *Broad diversification* through investment in hundreds of stocks in each of the two indexes.
- *Relative predictability* compared to the performance of the two target indexes.
- *Low operating costs* resulting from management on an at-cost basis by Vanguard's investment staff.
- *Low transaction costs* resulting from minimum portfolio turnover. Share purchases include a 1% transaction fee, *paid to the Fund,* to offset the higher costs of buying foreign stocks.

The minimum initial investment for this fund is $3,000; $500 for IRAs.

Please read the Fund's prospectus carefully before you invest or send money. It contains complete information on the transaction fee, distribution charges and other expenses.

Call 1-800-662-SHIP
Any Day, Any Hour
For A Free Information Kit

*Vanguard International Equity Index Fund is neither sponsored by nor affiliated with Morgan Stanley Capital International. Past performance of course, can't guarantee the future results of either the Indexes or the Fund.

THE Vanguard GROUP OF INVESTMENT COMPANIES℠

Liam Blake

Irish Investment Fund manager Harry Hartford
"The market is so small we know the companies intimately."

the five years ended December 1989, the Dublin exchange returned an average 47% annually, more than twice the gain for the S&P 500 and well ahead of the Japanese, German and U.K. markets. Yet Irish stocks still trade at a modest 10 times 1990 earnings, versus 12.6 for the S&P 500.

Want a piece of the action? The folks at the Bank of Ireland have created the Irish Investment Fund, a $55 million closed-end stock fund that invests at least 65% of its assets in publicly traded Irish companies.

Investors who bought the fund at its $12 initial offering price in March, a 7% premium to net asset value, aren't doing very well. The shares have sunk to 8⅝, or 21% under the recent $10.88 net asset value. Their loss is your gain. This could well be one of the better bargains among closed-end country funds, even with its 1.8% expense ratio.

With only 119 listings and a market capitalization of $13.2 billion, the Irish Stock Exchange is elfin: Last year's $5.7 billion trading volume roughly equaled a single day's trading volume on the NYSE.

"The market is so small we know all the companies quite intimately," says Hartford, 31, who studied economics at Dublin's Trinity College and Oklahoma State University.

The fund favors financial services, construction and food stocks, which are benefiting the most from Ireland's economic expansion. One of its largest holdings is Bank of Ireland competitor AIB Plc., which controls more than 40% of Irish retail bank deposits. AIB, which has already written off most of its Third World debt, trades at 7.4 times estimated 1990 earnings. Another big one is CRH Plc., Ireland's largest maker of cement, with a five-year annual earnings growth of 30% and a P/E of 9.6.

Power Corp. develops offices and shopping malls like the Trocadero retailing complex in London. Power's earnings have grown from 180,000 Irish pounds to 8 million pounds over the last five years, and the company is trading at a multiple of 14.3. But the real attraction is that, at a recent 1.4 Irish pounds per share, Power trades at a 31% discount to its asset value.

Assets and earnings aren't the only game. Hartford took a stake in conglomerate James Crean Plc., with operations in food manufacturing and distribution, aircraft leasing and electrical products, because he likes the management. "Raymond McLoughlin, Crean's managing director, is a master at making small acquisitions at low prices and then growing the businesses," says Hartford, who expects Crean's earnings to grow at a more than 15% rate for a good many years. He thinks the stock is a real buy at just 11 times 1990 earnings.

A closed-end Japanese investment company trading at a discount to its net asset value might or might not be a bargain, what with the Japanese market trading at such lofty multiples of earnings. But an Irish fund doesn't have that problem. ■

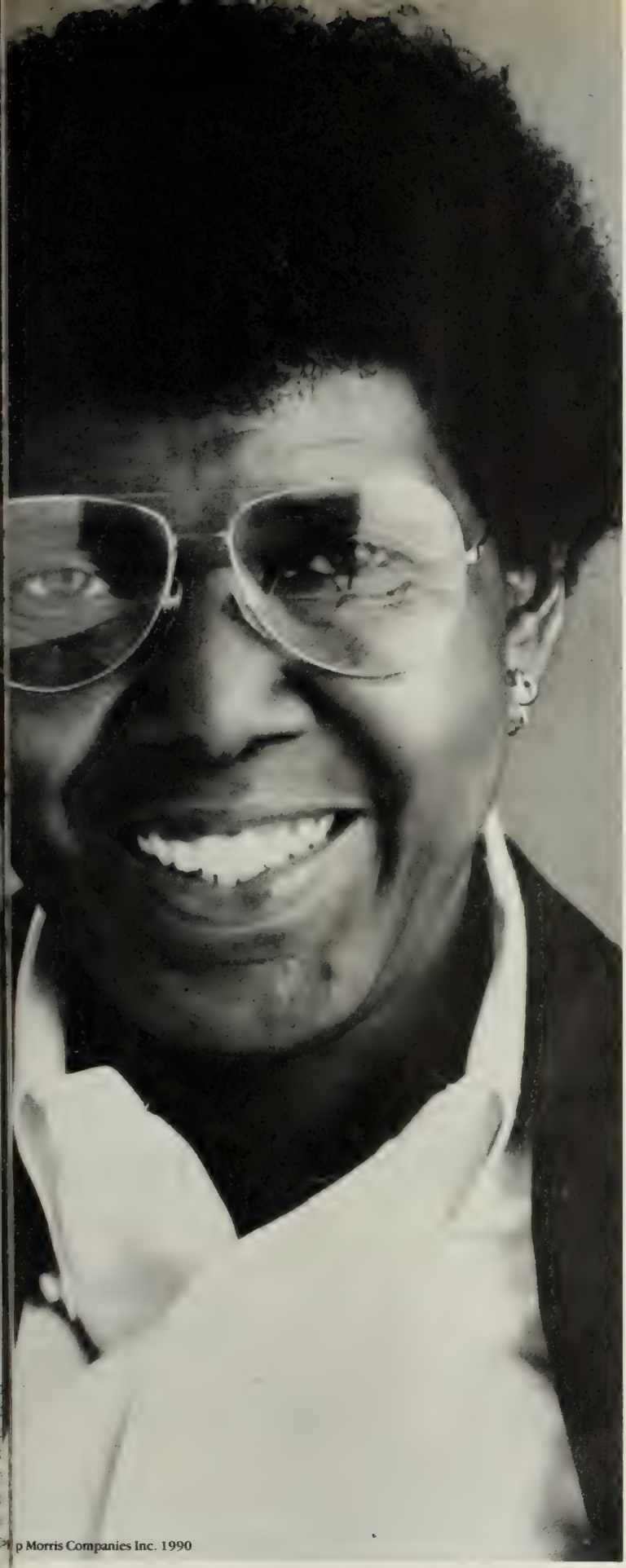
Serious connoisseurs of closed-ends don't stop at the border. They keep an eye on the discounts that pop up in London.

The British angle

By Peter Fuhrman

BRITAIN'S INVESTMENT TRUSTS are living financial fossils. Identical in most respects to U.S. closed-end funds, the trusts go back to the 19th century, when British capital was invested in U.S. railroads and land mortgages.

But they are sprightly fossils and worthy of consideration by U.S. investors. Most of them confine their portfolios to actively traded stocks. Their attraction for U.S. investors: Prices at often significant discounts to net assets, moderate expense ratios and, occasionally, excellent performance records. And now there is



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some prospect of takeovers that would shrink the discounts and provide a quick profit to shareholders.

The London Stock Exchange trades 200 investment trusts, with combined assets of $35 billion. They offer a tax advantage for British citizens, who pay taxes on undistributed capital gains only when they cash out. U.S. investors don't get that advantage but fare no worse than they would in a U.S. fund.

Performance? The best of them can hold their own with U.S.-based funds. GT Japan, for instance, has averaged a 24% compound annual return (in sterling) over the past five years; Foreign & Colonial, 15%. U.S. investors would have done considerably better, since the pound is perched 31% higher against the U.S. dollar than in July 1985.

But note that while currency fluctuations mean U.S. buyers of British trusts can wind up with better or worse returns than U.K. buyers, the currency risk of any fund is simply a function of the currencies of its portfolio stocks. For a U.S. investor, GT Japan has the same exposure to the yen, the Hong Kong dollar and so on that a U.S.-based fund buying the same stocks would have. Govett Atlantic is a British trust that invests almost solely in U.S. stocks. There is virtually no currency risk in it for a U.S. investor. If the dollar appreciates against the pound, Govett's portfolio will translate into a higher pound value—but the higher pound price of Govett shares in London will translate into the same dollar value as before.

Of course, you don't have to go to London to get exposure to overseas markets *(see foreign funds table, p. 212)*. But a good reason for considering British investment trusts is that some of those rather plump discounts to net asset value may be narrowing in coming years, under pressure from raiders—as in the U.S. Until recently the British have viewed hostile raids on investment funds as just not cricket. All that changed in July, when the Globe Investment Trust, Britain's largest, with assets of nearly $2 billion, succumbed to a raid by the pension fund for British coal miners. The coal miners did well, buying up shares that started out at a 20% discount to net asset value and will be worth full value, since the pension fund will soon take control of the assets.

Patrick McDonnell

The table lists several of the larger British investment trusts that have good records. They might also attract bust-up bids. Bear in mind that you will have to pay a currency conversion commission as well as a stockbroker's commission to get into the funds. Another caution: Many investment trusts hold unquoted investments in real estate and corporate startups. Generally speaking, the higher the discount the greater the percentage of these illiquid assets.

Since the funds are careful to do nothing that could be interpreted as soliciting business in the U.S.—which would get them into trouble with our Securities & Exchange Commission—you may find it hard to get financial statements from your U.S. broker. But you can contac the funds directly for inform tion. The best general r source is the Association o Investment Trust Comp nies, at 16 Finsbury Circu London, EC2. This trad group will sell you a copy o the biannual *Investment Fun Index* (£7.50, Centaur Com munications, London), whic tracks the trusts and gives a the pertinent data on perfo mance, portfolio weighting and dividends. The *Herzfel Encyclopedia of Closed-En Funds* ($125, Herzfeld Adv sors, Miami) has a chapter o London closed-ends. Shar prices and net asset value dis counts are quoted daily in th *Financial Times*.

The British will withhol 15% of any dividend pay ments, even if you choose t reinvest those dividends. The Britis take, however, can be set off agains your U.S. taxes. Come Apr. 15, yo must calculate what capital gain yo would have received if the trust ha been organized as a U.S. fund, an declare those gains on your tax return Those phantom payouts will reduc the capital gain you will have to de clare when you cash out of the trust

Neither the currency conversion nor the tax hassles have scared smar investors away from investmen trusts. Lazard Frères in New York ha put together a limited partnershi that invests heavily in them. It was Lazard partner, Walter Eberstadt, wh described investment trusts as "th biggest pool of undervalued liquid as sets in the world." ■

Discounts over there

These U.K. investment trusts have a combined net worth of $5.5 billion but a combined market value of just $4.7 billion. That gap may narrow.

Fund	Assets ($mil)	Recent price	Discount to NAV	Annual expenses per $100	5-year appreciation rate[1]	Yield
American Trust	$263	$2.62	–17.7%	$0.42	7.5%	4.2%
British Inv Trust	862	11.34	–17.7	0.52	17.0	4.7
Fleming Far Eastern	685	3.60	–20.7	0.47	26.0	1.0
Foreign & Colonial	1,675	2.70	–15.5	0.20	21.8	2.4
Govett Atlantic	267	2.77	–15.9	0.50	8.3	3.1
GT Japan	241	2.92	–24.6	0.90	31.5	1.0
Scottish Eastern	757	1.01	–15.1	0.28	19.0	2.9
Scottish Investment	880	2.85	–17.8	0.29	17.1	3.4

[1]Compound annual appreciation to 7/31/90 in U.S. dollar value of trust's net assets per share. Assumes capital gains but not income dividends are reinvested.

Sources: Datastream; Investment Fund Index.

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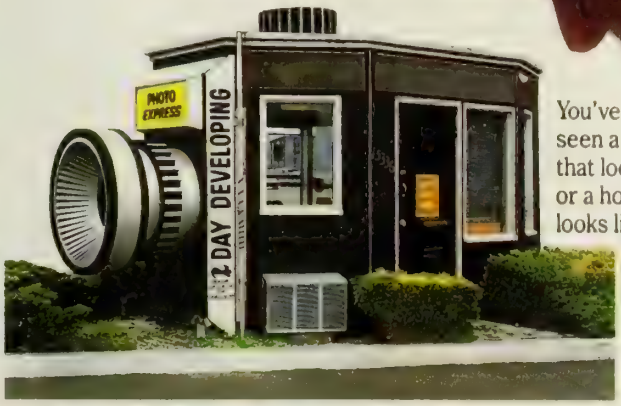

You've probably seen a cheese shop that looks like cheese or a hot dog stand that looks like a hot dog. This place is in the Los Angeles suburb of Westminster. Isn't the architecture of Southern California special?

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Real estate has been weak in the past few years—which makes it cheap now and potentially a good inflation hedge.

Real estate funds

By Suzanne L. Oliver

THE RESOLUTION TRUST CORP. is about to smother the real estate market with $17 billion in property. Office vacancy rates in Denver, Miami and Phoenix are all above 20%, according to Coldwell Banker. Real estate investment trusts (closed-end funds that own buildings or mortgages) have done terribly since 1987.

Sounds pretty grim. But Gregory Sigmund of A.G. Edwards & Sons in St. Louis reads in all this a bullish sign: If real estate is cheap, now is the time to get in. Sigmund, to be sure, has a bias. As an analyst who follows the realty trust industry and works for a broker that makes its money moving the merchandise, he would find it hard to declare that the whole sector should be avoided. But at least Sigmund, 28, takes an activist approach to research. He tries to "kick the bricks," with visits to as many as ten properties for each REIT.

A REIT, or real estate investment trust, is the real estate equivalent of a mutual fund. A "conduit" for tax purposes, like a mutual fund, it pays no federal income taxes itself and must distribute almost all of its taxable income to shareholders. An equity REIT gets most of that income from rents and capital gains, while a mortgage REIT gets its income from a portfolio of mortgage loans.

REITS aren't covered in our fund tables beginning on page 177, largely because they are so incomparable with other funds. Most funds own very liquid assets, namely, securities; REITS own buildings and mortgages, which are not liquid. We rate closed-end securities funds on their net asset value per share; the corresponding figure for a REIT, the book value, is not a meaningful measure of performance. Some REITS publish estimates of their liquidating value, but they are only estimates.

That said, REITS can be compared, and they make a very plausible vehicle for lowering risk in an investment portfolio. Equity positions in real estate are a hedge against inflation, and arguably a much better hedge than, say, precious metals. Buildings throw off income. Gold doesn't. Sigmund points out that the yield of equity REITS relative to the yield on government bonds is near its alltime high.

The first thing to look for in a REIT, Sigmund says, is an active and proven management. REITS vary greatly in how active they are. Some, like Federal Realty Investment, have a staff that seeks out properties, improves them and operates them. Others don't manage the buildings they own. One Pittsburgh & West Virginia Railroad does nothing more than cash rental checks on trackage.

In slow markets like today's, equity REITS are able to upgrade their properties and increase cash flow, while mortgage REITS are at the mercy of developers. Developers may let properties go to pot or overreach themselves—as VMS Realty Partners did, dealing a mighty blow to the eight VMS mortgage REITS that had lent money to this syndicator. Lomas & Nettleton Mortgage Investors has been dragged down by troubles of its sponsor. Mortgage & Realty Trust has gone Chapter 11.

Such casualties have helped bring down the prices of many REITS to three-year lows. Result: Over the past three years equity REITS showed an average annual total return (share price gains plus dividends) of scarcely 1%. But they look much better over the long haul, with a compound average return through the end of 1989 of 16.7% a year, according to an index maintained by the National Association of REITS. The S&P 500 did slightly better with a 17.5% average return, but with considerably more volatility along the way.

In this collection are a few gems

Patrick McDonnell

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Georgia-Pacific

Annual Fund Ratings

New Plan Realty has a ten-year average annual return of 26%. New Plan buys run-down shopping centers in the mid-Atlantic states at 50% of replacement cost or less, then renovates the properties. The company has $4 per share in cash, which should help it compete for new acquisitions. Sigmund expects a 9-cent increase in the dividend next year, to $1.14. The stock is one of the more expensive REITs, selling at 17 times expected 1990 cash flow, cash flow being defined as net income (excluding capital gains) plus depreciation.

Western Investment is a bet on population growth in California and Nevada. The REIT owns shopping centers in Carson City, Nev. and Redwood City, Calif., with tenants like Raley's and Savemart. Sigmund expects a $1.44 payout this year.

United Dominion Realty Trust is one of the few REITs focused on apartment acquisition. Since the tax law changes in 1986 limited the tax benefits of syndicating apartment buildings, few new apartments have been built and many apartment syndicators have been forced to liquidate. For United Dominion that has meant good buying opportunities in the Southeast and higher occupancy rates and rents. United Dominion's dividend yields 8.1% and has been growing at a 13.8% annual rate.

The best-performing REITs tend to trade at a premium to their likely liquidation value. MGI, in contrast, is trading at a 40% discount to Sigmund's estimated $18 liquidation value for the company. The stock has been weak ever since the company decided to switch from mortgages to equity stakes and cut the dividend in the process. But he says the trust has good capital gain potential.

Don't buy a REIT without reviewing its financials and its list of properties. If you don't have the time, there are a handful of stock mutual funds that buy REITs and other real-estate-related stocks. Fidelity Real Estate Investment Portfolio is the largest of these funds, with a 2.1% annual return over the past three years, in line with the REIT average. Discouraged about U.S. real estate, the fund's manager, Barry Greenfield, is keeping a defensive 10% of the fund's assets in cash. Another 12% is invested abroad. The drawback to a fund of REITs, of course, is the additional layer of fees. ■

The largest REITs

Most real estate investment trusts have done very poorly in the past five years. But they turned in good results in the early 1980s.

Company	Recent price	—Annualized return[1]— 5 years	10 years	Yield	Mkt cap ($mil)
Meditrust	17⅞	19.9%		12.8%	$335
Health Care Property Inv	32	17.0		9.3	365
New Plan Realty Trust	17½	15.9	26.1%	6.2	610
Weingarten Realty	25⅞	14.9		7.3	422
Washington REIT	17	13.9	19.9	6.4	263
Federal Realty Inv Trust*	19	13.6	20.4	7.4	318
Western Investment*	16⅜	13.2	19.0	8.6	261
Del-Val Financial[2]	17¼	13.2	16.8	11.1	99
Pennsylvania REIT	20	12.4	20.6	8.6	164
United Dominion Realty Trust*	15¼	11.1	21.3	8.1	177
IRT Property	11¼	10.8	20.0	10.3	137
Rockefeller Center Properties[2]	17⅝	9.4		10.7	661[1]
Santa Anita	26	8.5	14.6	8.0	291
REIT of California*	14⅝	7.1	17.2	9.7	108
Nationwide Health Properties	16⅞	5.9		9.8	189
Capstead Mortgage[2]	14½	5.8		15.7	126
BRE Properties	26⅛	5.8	18.0	9.2	206
First Union Real Estate	14⅝	2.2	13.7	10.3	255
MGI Properties*	10½	–0.8	9.1	10.7	99
Property Capital Trust[3]	9¾	–3.2	10.5	24.7[4]	98

*Recommended by A.G. Edwards. [1]With dividends reinvested. Through 6/30/90. [2]Mortgage REIT. [3]Mortgage/equity hybrid. [4]Includes special dividend. *Sources: National Association of REITs; Forbes*

If you look back over the 1980s, gold fund seem a rotten investment. But they do offe protection against Middle Eastern mad men and inflation scares.

The Hussein hedge

By Suzanne L. Oliver

By itself, gold isn't a good bet for your investment portfolio. Over the past century its price, adjusted for inflation, has inched up at less than a 1% annual rate, scarcely enough to pay for storage and insurance. Shares in gold mines aren't much better, except during years of rising inflation. The year 1979 was great one for gold and gold shares. Th past decade has been a disaster.

As an additive in a diversified port folio, however, gold—bullion, gol stocks or gold funds—mak
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Annual Fund Ratings

hand again in the U.S., bonds—and probably stocks, too—would be hammered badly. But a small position in gold—say 5% or 10% of a portfolio—would make up some of the loss.

That is the selling proposition that keeps 30 precious-metals funds with assets totaling $4 billion in business. The mess in the Middle East and the 50% gain in the price of oil in the past month should bring a little more business their way. "Uncertainty is positive for the price of gold," says Kenneth Oberman, manager of the Oppenheimer Gold & Special Minerals Fund. "People like to have a store of value."

In theory, an astutely managed gold fund should be able to make good money even when inflation is abeyant, by trading gold positions for small gains. But even the best gold funds don't succeed at that with any consistency. Look at Ken Oberman, who started his fund in 1983 and proceeded to put it at the top of the heap. Oppenheimer Gold's five-year average annual return of 21% is twice that of the second-best-performing metals fund. But this year Oberman is flummoxed. His fund was down 16% for the first six months of 1990. What went wrong?

Oberman's earlier success, he says, was based on his observation of the relationship between the price of gold and the value of the dollar. He discovered that gold and the value of the dollar against a trade-weighted basket of foreign currencies have moved inversely to each other ever since the dollar was freed from gold in 1974. Peaks in the price of gold have occurred simultaneously with bottoms in the dollar. So Oberman used that relationship to predict the price of gold. If he thought the dollar was going down, he bought gold. When he thought the dollar was going up, he sold. The theory served him well, b cause he was pretty good at guessin where the dollar was going to go. H based those guesses on a lot of thing trade deficits, what the Federal R serve was up to, and tax policy, f instance.

At the beginning of 1990, Oberma expecting the dollar to weaken an gold, therefore, to strengthen, was t tally invested in gold, platinum, silv and diamonds. But precious meta fell. "I feel like a jerk," Oberman w saying in an interview in July. And s he moved 25% of the fund's asse into cash—just in time to miss th beginning of the Hussein bull mark for inflation hedges.

In his office high in the World Trad Center, the 60-year-old fund manag leans back in his reclining desk cha and studies the dollar/gold cha taped to his wall. The Mideast tu moil has boosted his fund's share va ue a little, but the long-standing i verse dollar/gold relationship is still little out of whack. "I'm not willin to take what has been close to 2 years of history and throw it out th window simply because we've ha five or six months of it not working, he says. There's really no telling if th formula will work again.

The table at left lists the bette performing gold funds. You can e pect that even a mediocre one wi provide some counterinflationa cushion. But you have to be ve lucky to find one that performs we as an investment in its own right, a Oberman's fund did until his form las stopped working. ■

Patrick McDonn

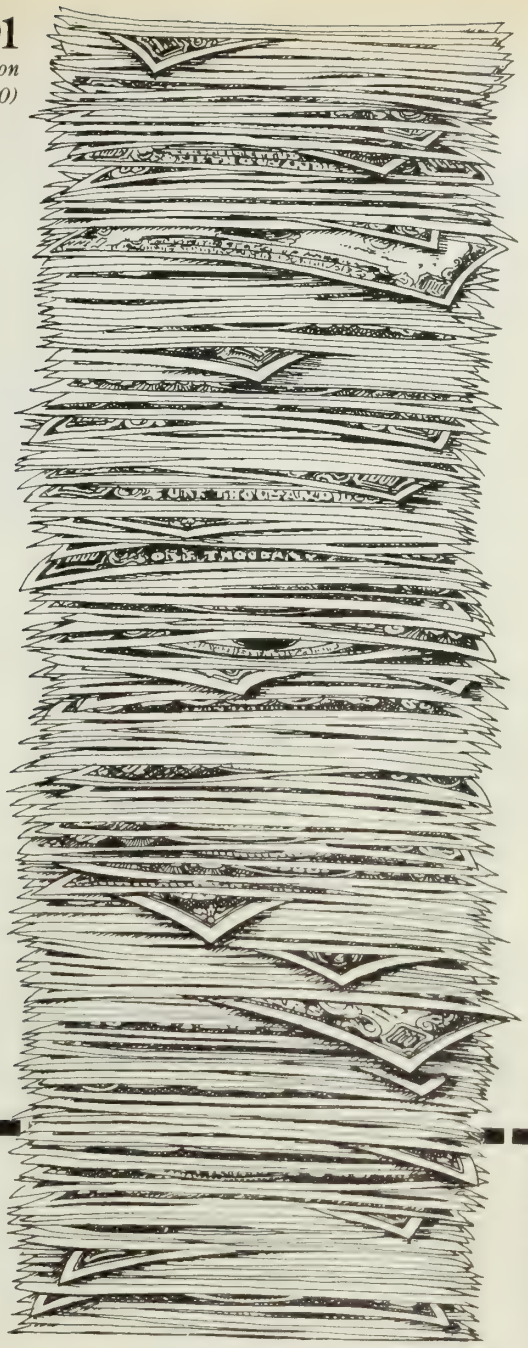
The ones that glitter

Of the best-performing gold funds since 1985, only one beat the stock market. Their main value is as an insurance policy against inflation.

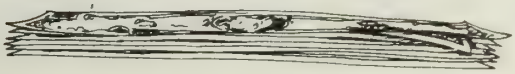
Fund	Assets ($mil)	Total return 5 years (annualized)	Total return last 12 months	Maximum sales charge	Annual expenses per $100
Oppenheimer Gold & Special Mins	$163	21.4%	3.3%	8.50%	$1.37
Franklin Gold Fund	279	12.8	10.1	4.00	0.78
Lexington Goldfund	121	10.8	1.7	none	1.42
Vanguard Special-Gold & Prec Metals	161	10.7	5.0	none§	0.45
IDS Precious Metals Fund	81	10.4	–2.9	5.00	1.46
SLH Investment-Precious Metals	69	9.3	–3.4	5.00b	2.45
Van Eck International Investors	699	8.6	11.0	8.50	0.88
United Services-Global Resources	32	8.5	–0.5	none	2.10
Freedom Inv-Gold & Government	69	8.4	6.7	3.00b	1.89
Bull & Bear Gold Investors	39	7.7	1.5	none	2.49p
S&P 500		17.3	16.4		

p: Net of partial absorption of expenses by fund sponsor. b: Includes back-end load that reverts to distributor. §Distributor may impose redemption fee whose proceeds revert to the fund.

$252,191
(Total value on June 30, 1990)



A $10,000 investment on June 30, 1975



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It's one of the natural cycles of investment life. Closed-ends come out at a sucker's premium, shrink to discounts and thus attract raiders looking for a liquidation.

Duck shoot

By Richard Phalon

IT'S OPEN SEASON on deep discount closed-end investment companies. Opportunist money managers have under siege at least seven closed-end funds, including such popular underwritings of the last three or four years as the Brazil Fund, the Blue Chip Value Fund and the Nicholas-Applegate Equity Fund.

If you are a shareholder in one of these funds, you should welcome the attack. Before the raid, a closed-end fund may be trading at, say, 85 cents per dollar of assets that it owns. If the raid is successful, the fund is either liquidated at something close to 100 cents on the dollar or open-ended. An open-end fund is one whose operator is required to cash out any shareholder at 100 cents on the dollar.

If the raiders fail to force a liquidation or open-ending, the effect may nonetheless be positive: Buying pressure may boost the market price of your shares. Now, if and when you have to get out, you realize maybe 90 or 95 cents per dollar of assets, instead of only 85 cents.

The raiders, of course, are hoping that the erasing of the discount will take place as quickly as possible. The sooner they can cash out and redeploy their money on another arbitrage, the better their annual return.

The motives of the raiders are clear. "It's like buying 85-cent dollars," says Peter Thayer, 42, whose Gateway Investment Advisers, a Milford, Ohio-based money manager, pushed the $87 million Schafer Value Trust into liquidation in July. The Schafer score came some 11 months after Gateway picked up what Thayer says was a fast 50% return on its money by pressuring the Financial News Composite Fund into open-ending.

"We'll find more," crows Thayer. "When you look at the discounts, it's amazing how much opportunity you find." *(See table, p. 166.)*

The opportunities are there because so many closed-ends were formed during the bullish 1980s. A new closed-end is created when brokers persuade investors to pay (typically) $1.08 for each dollar of assets, the 8 cents being a commission for the broker. Given the likely course of events, it is exceedingly foolish to pay more than 100 cents on the dollar to get into a closed-end fund. Even paying 100 cents on the dollar isn't very smart, because odds are the fund will eventually droop to 85 cents on the asset dollar or even less. Nevertheless, during periods of rising stocks, willing victims can usually be found.

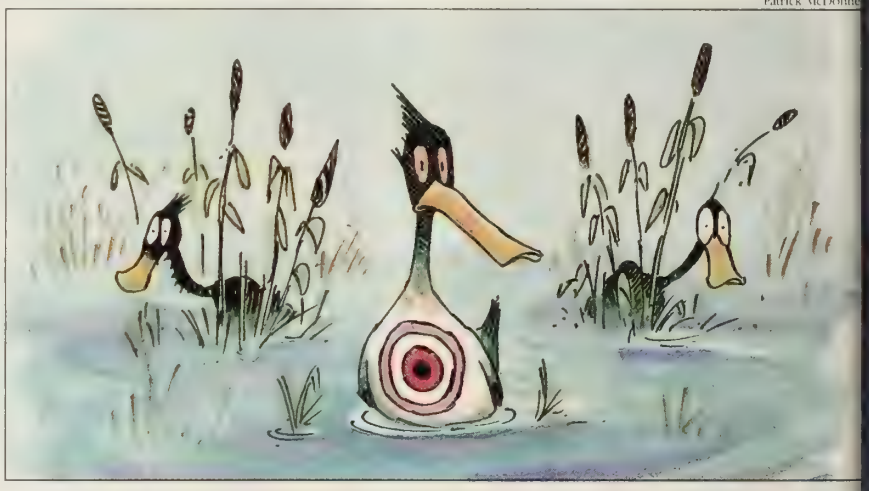
After a fixed allotment of shares has been sold, the fund's manager invests the proceeds in stocks and bonds, and the fund's shares trade in the secondary market like shares of any other corporation. In time, the excitement over the creation of a new fund diminishes and the price of the fund's shares shrinks, from $1.08 per dollar of a sets to $1, and thence—usually, bu not always—to some amount consid erably less than $1. Then the raider show up.

Depending on how well the portfo lio manager has done in the mean time, the original investors may b sitting on a profit, even without boost from a raid. But they woul have done better to buy a no-loa open-end fund run by the same portfo lio manager or another manager o comparable abilities. The most yo can get out of a raid is 100 cents pe dollar of portfolio assets in the fund that payout is guaranteed at all time in an open-end fund.

Sometimes the operator of a be sieged closed-end quickly capitulate (the Japan Fund, for one, in 1987), bu wars of attrition are more typical (a at Bancroft Convertible, the Cypres Fund and Liberty All Star). The fun manager's defense is that the closed end structure, discount or no, ulti mately benefits shareholders. Locked in capital, they argue, makes for mor consistent performance because th managers don't have to keep cash o hand to meet potential redemptions Maybe, but locked-in capital als makes for a more consistent flow o advisory fees.

Early death certainly did not seem to be in the cards when Schafer Valu Trust came to market late in 1986 The fund had everything going for it: highly regarded manager in David K Schafer, whose Princeton, N.J.-base advisory firm runs $350 million i mainly institutional money; the pres tige of a Lazard Frères & Co. under writing; and a promising investmen

Patrick McDonne



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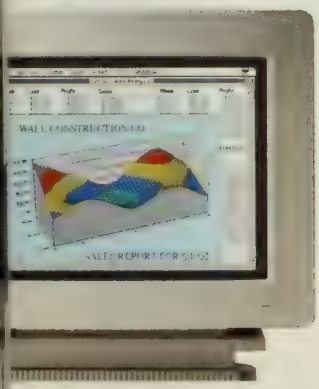

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focus on big companies trading at low multiples of their earning power, such as Federal Express and Citicorp.

Like many of the other closed-ends brought out in a rush around the same time, though, Schafer Value had barely been fully invested when the market crash of 1987 hit. Stock that had sold on the underwriting at $9 a share plunged to $6, an insulting 20% below net asset value.

Like many other threatened closed-end managers, David Schafer worked at narrowing the discount by having the fund buy its own shares in the open market. Such repurchases benefit loyal shareholders, putting in their hands profits that might otherwise have gone to a raider. Consider this hypothetical situation. A fund has a portfolio worth $150 million and million shares outstanding that tra at $12 each, a 20% discount to th $15 underlying value. If the manag were able to pick up 5 million of t fund's own shares at $12 each, would shrink the portfolio value $90 million but instantly boost t net asset value of each remaini share to $18.

Why don't managers buy in shar more often? Because they don't wa to shrink their portfolios. The advis ry fee a manager collects is a percer age of the portfolio's value.

David Schafer's buy-ins didn't he much. Through 1988 Schafer Val struggled with a market price th averaged 17% below net asset valu Schafer managed to beat off the first a series of open-end proposals a vanced by an alliance of sever groups that controlled 19% of t fund, but he was up against some se ous players, one of which was the $2 billion Yale endowment. In Mar Schafer and his fellow directors a proved a plan to liquidate, and shar that the raiders started buying $6.25 were turned into checks f $10.25.

Given the kind of unwelcome a tention discounts attract, some fur sponsors have decided to erase the by voluntarily switching to open-er structure. Among them: Prudenti Strategic Income, Regional Financi Shares and Templeton Value.

Note that the raiders are not sna ping at just any discount. Their focu is on situations where pressures f open-ending are likely to develop, b they don't want poor performers ratty portfolios. The raider nev knows how long it will take for h pressure to take effect, and he doesn want to be in a situation where th asset value could simply melt awa Yale, a cautious player, has sizab positions in Nicholas-Applegate Equ ty (15% of outstanding); Royce Valu (6% of outstanding); and the Morga Grenfell Small Cap Fund (12%)—a good performers.

The raiders also tend to shy awa from funds too large to intimidat Thus, the discount on the $1.7 billio Tri-Continental Fund lingers a 15.2%. General American and Bake Fentress have also escaped the shark

Says Thayer, "You may have to b patient, so you want managers wit very, very good records." For the sam reason, you also want funds with lo expense ratios. No sense buying int an inept closed-end at a 10% dis count, only to see the portfolio slowl eaten away for the next six years by 2% annual expense ratio. ■

Relative bargains

A closed-end fund trading at a big discount to its liquidating value is a potential bargain—especially if its performance is good and/or it is potential raider bait. But beware of high expenses. Here, we compare discounts to expenses in the "relative discount" column. This is calculated as the number of years it would take for the expenses to wipe out the benefit of the discount. (The number is roughly the same as the discount divided by the expense ratio.) These 30 funds score highest in relative discount among those in the main tables beginning on page 177.

Fund	Type	Recent price	Discount	Annual expenses per $100	Relative discount[1]
ASA Limited	foreign stock	49½	–21.0%	$0.51	46.1
Salomon Brothers	stock	12	–18.0	0.44	45.1
Tri-Continental Corp	stock	23⅜	–15.2	0.55	29.9
Baker, Fentress & Co	stock	18¾	–17.1	0.64	29.2
Adams Express	stock	16⅛	–12.6	0.51	26.3
Convertible Holdings[2]	balanced	15¾	–16.8	0.80	23.0
Counsellors Tandem Securities	stock	10	–21.9	1.08	22.8
Niagara Share Corp	stock	14¼	–19.0	1.08	19.4
General American Investors	stock	19	–18.3	1.04	19.4
American Capital Bond	taxable bond	16¾	–11.8	0.71	17.6
Lincoln National Income	taxable bond	24¼	–13.9	0.96	15.5
Scudder New Asia	foreign stock	15	–24.5	1.84	15.1
Royce Value Trust	stock	8⅞	–12.3	0.93	14.0
Quest For Value Dual[2]	stock	25	–11.0	0.83	13.9
Lincoln National Convertible Secs	balanced	12⅞	–12.2	0.94	13.7
Liberty All-Star Equity	stock	7⅞	–15.7	1.25	13.6
High Income Advantage Trust	taxable bond	5	–12.4	0.98	13.5
Independence Square Income Secs	taxable bond	14½	–12.3	0.97	13.5
Putnam Premier Income Trust	taxable bond	7⅛	–12.5	0.99	13.4
Prudential Intermediate Income	taxable bond	7½	–13.2	1.07	13.2
Putnam Master Inter Income Trust	taxable bond	7	–12.8	1.04	13.1
Excelsior Income Shares	taxable bond	15¼	–12.4	1.03	12.8
Circle Income Shares	taxable bond	10½	–11.4	0.98	12.3
Bancroft Convertible	balanced	17	–15.9	1.50	11.4
Castle Convertible	balanced	18¼	–12.9	1.20	11.4
Putnam Master Income Trust	taxable bond	7½	–11.2	1.06	11.2
H&Q Healthcare Investors	stock	10	–17.6	1.74	11.0
Asia Pacific	foreign stock	14	–17.3	1.72	10.9
Central Securities	stock	9	–17.7	1.83	10.6
Hampton Utils-Capital Shares	stock	10⅛	–12.1	1.45	8.8

Prices and discounts are as of Aug. 3, except for bond funds, which are as of Aug. 8. [1]Number of years after which expenses, continuing at current rates, would dissipate the benefit of buying the fund at its current discount and having it liquidated at full net asset value. [2]Dual fund, with capital and income shares treated as a unit. Due to be liquidated in 1997.

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We don't have all the answers for stimulating the curiosity of every young person who sees these films. But we hope to provide the new fact or fresh experience that might serve as the first step.

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Watch your wallets. Lexington Management Corp. has reopened its Corporate Leaders Trust Fund for new business.

Tail end of trend?

By Michael Fritz

IT'S A GOOD RULE of thumb on Wall Street that when a quiet trend becomes a noisy fad the trend is about to reverse. Consider the matter of stock index funds, which are designed to mechanically replicate the performance of a stock average such as the Dow or the Standard & Poor's 500. They have lately become a fad. That suggests the possibility that the blue chips in these indexes are all overpriced, and that it's time to get out of index funds.

Investors are flocking to index funds now because so many actively managed funds did worse than the indexes in the 1980s, whereas the index funds, with their fixed portfolios, kept up.

Witness these events since the beginning of last year: Assets in Vanguard's S&P 500 fund have doubled, Fidelity and Dreyfus have opened copycat index funds, and Lexington Management Corp. has reopened its Corporate Leaders Trust Fund to new investors.

Corporate Leaders? It's scarcely a big name in the fund business, and at $92 million in assets may never be. But it is symptomatic that the fund, after 14 years of dormancy, has reawakened. Not only that, but Lexington Management is boldly marketing this passively managed fund with a 0.72% expense ratio (due to drop to 0.61% in the next financial report) and a 4% sales load.

Corporate Leaders is a strange beast. Though not literally an index fund, its rigid portfolio of 23 blue-chip stocks comes pretty close to tracking the Dow industrial average. As a result, the fund has beaten even the S&P 500 in recent years, a reflection of how popular stocks like Procter & Gamble and Chevron have become. But remember: This impressive performance is not a product of stock-picking skill but simply a reflection of how the Dow has outperformed the generality of stocks in recent years.

Founded as a trust in 1935, Corporate Leaders held equal weightings in 30 blue chips, half of them Dow stocks. The strict terms of the trust are reminiscent of Army discipline: Everything that is not mandatory is prohibited. No new companies can be added to the portfolio. A company can be removed only if it stops paying dividends, is delisted from the New York Stock Exchange, or is acquired. Since the fund's inception, just seven stocks have been removed.

An index sampler

An index fund is supposed to be managed passively and keep its expenses low. These funds do just that. None charges a sales commission, and most have expense ratios under 0.5%.

Fund	Index	Assets ($mil)	Expense ratio
Dreyfus Peoples	S&P 500	$19	0.20%p
DFA Small Co Port[1]	smallest 20% of stocks	838	0.62
Fidelity Spartan Mkt	S&P 500	29	0.28p
Vanguard Index 500	S&P 500	2,368	0.20
Vanguard Intl Equity*	Morgan Stanley EAFE[2]	100	0.32
Vanguard Ext Mkt*	Wilshire 4500	185	0.23
Vanguard Bond Mkt	Salomon Brothers bonds	171	0.24

* Imposes 1% load that reverts to fund.
[1]$50,000 minimum initial investment; offered via fee-only financial planners. [2]Index of stocks from Europe, Australia and Far East. p: Net of absorption of expenses by sponsor.

Sources: Lipper Analytical Services; FORBES.

Annual Fund Ratings

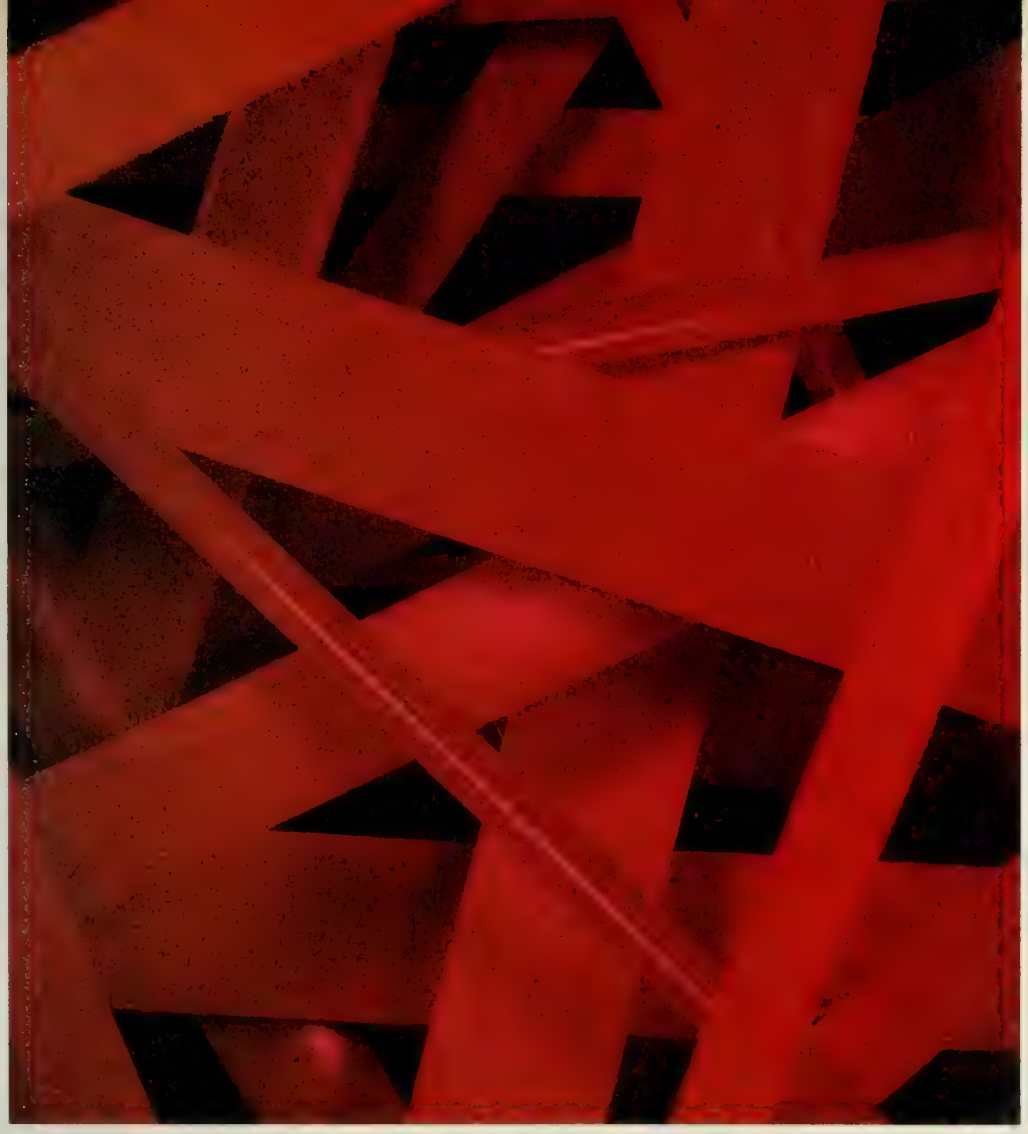
Only once in its 55-year history di the managers of Lexington make major portfolio decision, and, ala they made it wrong. When AT&T di integrated into eight companies i 1984, Lexington managers opted t keep only the parent and cash in th shares of the seven regional Bell com panies. Since then the regionals hav far outperformed the parent.

For a decade this passive fund wa in the hands of none other than Joh Templeton, one of the giants of activ money management. In 1959 Templ ton acquired Corporate Leaders' adv sory firm as part of a deal to gai access to a 400-man sales force, whic hawked the fund through contractu plans. Templeton sold Lexington R search & Management in 1969 t Piedmont Management Co. Inc., a over-the-counter reinsurance holdin company controlled by the heirs t the Richardson-Vicks fortune.

Lexington Management hasn't ex actly shone under its new owners. has three equity funds that are activ ly managed and at least a decade ol Goldfund, Growth Fund and Researc Fund. All three trail the S&P 500 by to as many as 13 percentage point annually, although the gold fund ha done better than most other gol funds. Three new funds—with globa quantitative and bond portfolios—have attracted only $76 million i assets among them. A Piedmont d rector says the firm has felt out poter tial buyers for its beleaguered reinsu ance operation, but it has y to find any takers. Piedmor suspended its dividend las year.

Back to Lexington's Corpo rate Leaders. The sponso clearly hopes to cash in o the vogue for index funds but the fact that index fund have become a vogue sug gests they have had their da The nifty 500 have bee beating the rest of the ma ket for quite a while, an have probably reached point where these instit tional favorites are now ove priced.

Our advice to those abou to buy an index fund: N now. But if you must buy, a least get one with no sale load and with minimal ope ating expenses. ■



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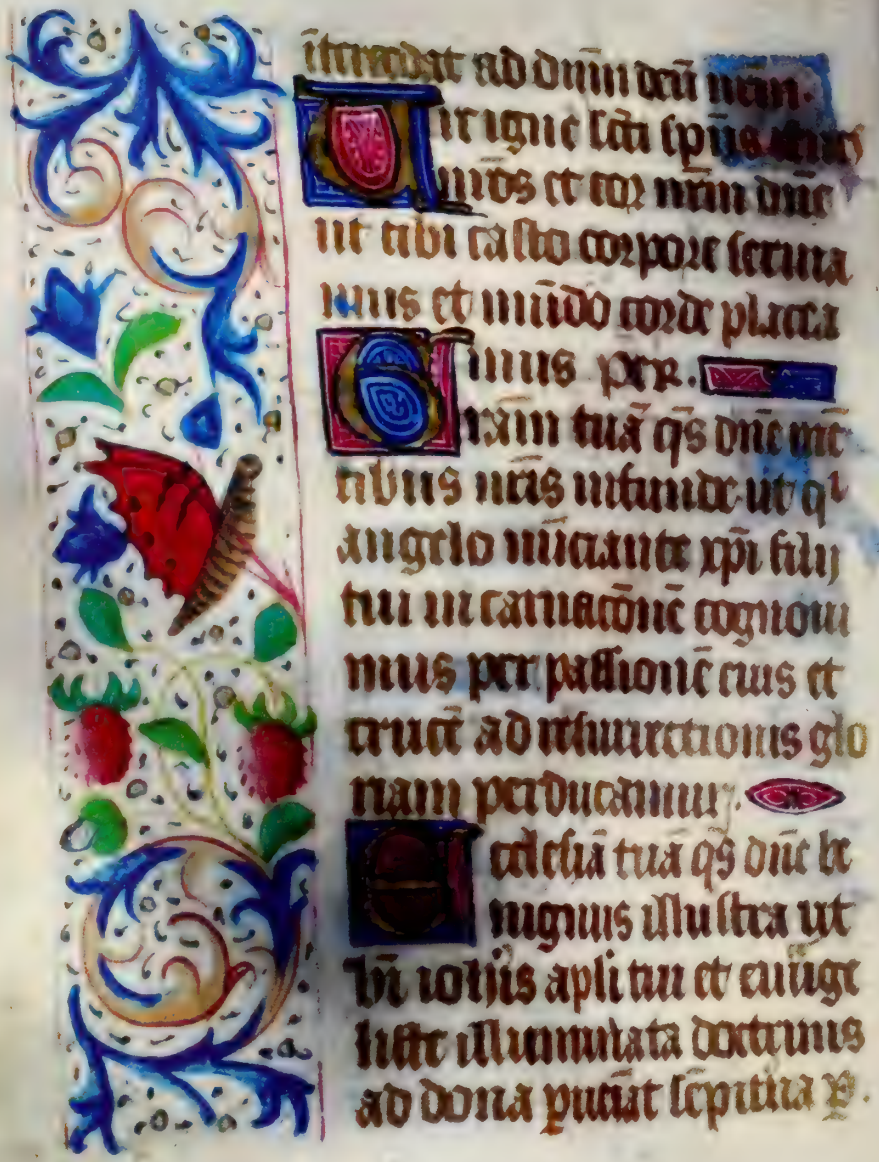

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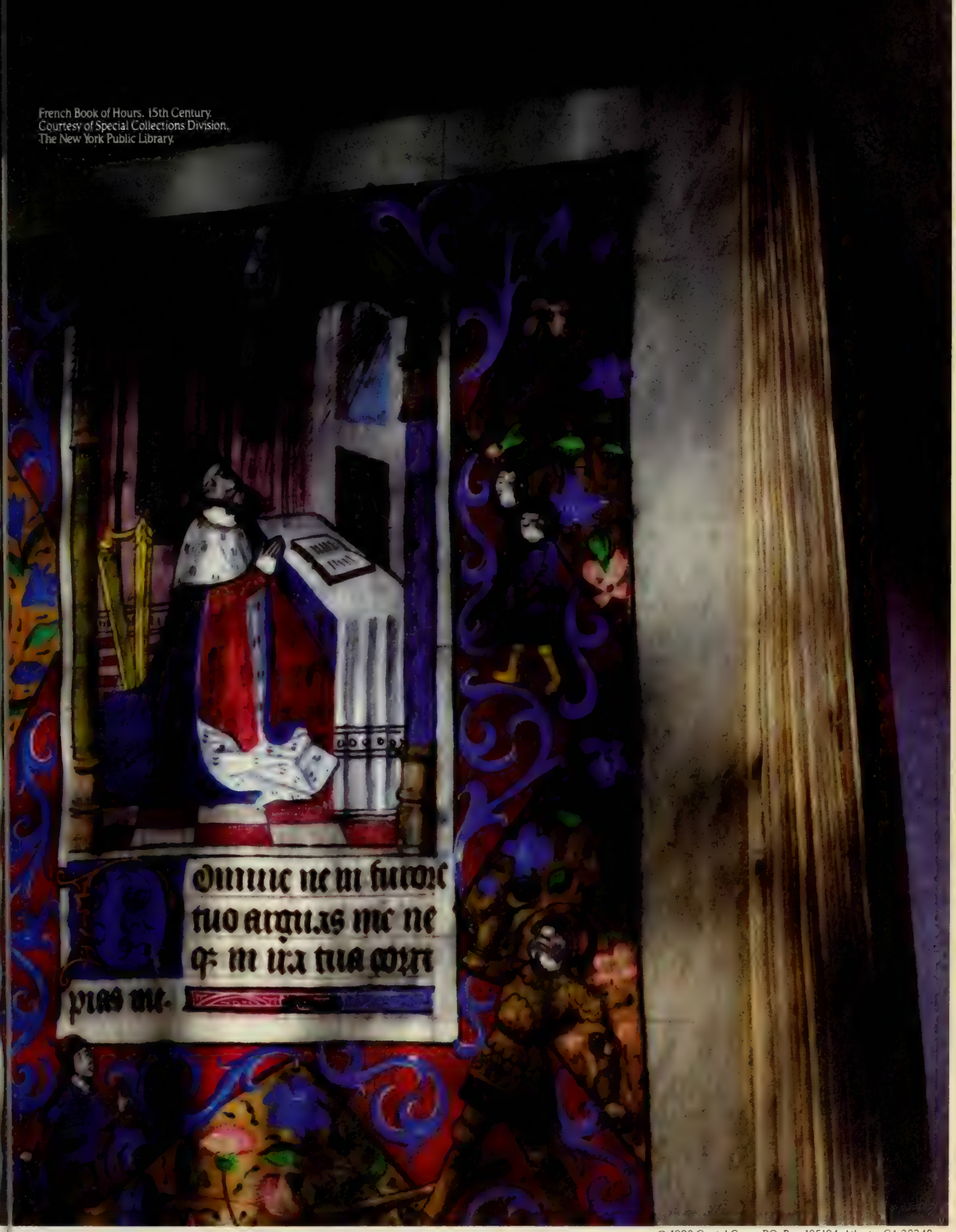

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It makes no sense to buy a bond fund trading at a premium to net assets, but people put billions of dollars into such funds. How can they be so dumb?

Annual Fund Ratings

Muni mystery

By Mark Fadiman

THE CLOSED-END FUND business has been warming up in the past several years, and one of the hottest spots in it right now is the tax-exempt sector. Since the beginning of last year, packagers like Allstate, Colonial Group and John Nuveen have poured into the market at least $6.5 billion in new closed-end municipal bond funds. Herein is a puzzling phenomenon. New closed-ends come to market at a premium of 7% or so over the value of their net assets, the premium largely representing a commission to the people who sell the fund. Yet experience shows that closed-end bond funds, in time, almost inevitably sink to discounts below their asset values. Thus, the original buyers are paying $1.07 for a mere dollar bill, which, moreover, one can reasonably predict will be worth only 95 cents or so a few years later. As a matter of fact, they could easily buy existing funds at a discount. How dumb can investors be?

There are two plausible factors behind this mass delusion. One is that the buyers don't know exactly what a closed-end premium is. The other is that they don't have the foggiest notion of what a yield curve is. The buyers may not be dumb, but they sure are uninformed.

Consider first the matter of the premium. "This kind of product is sold, not bought," explains Thomas Herzfeld, a Miami-based money manager specializing in closed-ends. Herzfeld's numbers show bond funds eventually sink to an average 4% discount. Buyers do not approach retail brokers asking to get into a new closed-end. The brokers call them. They then talk a lot about yields and tax savings, and as little as possible about costs.

One former Shearson Lehman Brothers broker, who now works for a law firm, says it's all a question of semantics. "If an offering comes out at $10 a share, you can either offer it to the customer at $9 plus a $1 commission, or you can offer the share to the customer for $10 and not mention the sales charge. It's legalized nondisclosure." Posing as an ingenuous investor, this reporter called brokers at several large retail firms for information on new muni funds. Two double-talked their way around the underwriting commission. A third lied, saying flatly there was no "up front" load on a new closed-end bond fund, there were only portfolio management fees.

The brokers can take steps to insure that the grim reality of discounts does not intrude upon the process too early. Many of the new funds are "supported" by the underwriters—a polite way of saying the brokers are doing what they can to dissuade sellers. "They tell you they'll take away your commission if your customer sells out of the fund," one PaineWebber broker complains. "That means you discourage your customer from selling even if you know damn well the fund is going to fall."

Sooner or later, though, the support stops. Nuveen Municipal Advantage, which came out last December at $15, a 6% premium over its net asset value, is still holding up pretty well on the New York Stock Exchange, at a 3% premium. Contrast New York Tax-Exempt Income, which came out in 1987 and has sunk to a 5% discount on the American Stock Exchange. Someone who bought that one new and sold today, incurring a second brokerage commission on the sale, would do about 13% worse than someone getting in and out of a no-load bond fund. That's a pretty big handicap in a tax-exempt fund—not quite two years' income.

Then there is the matter of the yield curve. What makes Nuveen Municipal Advantage and other funds like it so attractive is an artificially boosted yield. The Municipal Advantage portfolio of long-term bonds yields only 7% after expenses, yet the mutual fund is paying its investors at a rate of 7.7% of their net asset value. How is that possible? The fund is using leverage. Here's how it works: A third of its capital consists of preferred shares paying 5.5%, with the yield reset weekly. In effect, the fund is borrowing short to lend long, an old and dangerous game on Wall Street. It works beautifully until interest rates spike up, at which point the common shareholders are facing artificially depressed yields and unusually large capital losses.

"If you want to make a bet on munis, you should either buy the bonds themselves or a no-load open-end fund," says Robert Gordon, president of Twenty-First Securities. "Certainly you shouldn't buy closed-end funds at a premium." Indeed, he and others like him may be short-selling the premium muni fund you are tempted to buy. Don't be a dumb investor. Know what you are buying. ■

Patrick McDonnell

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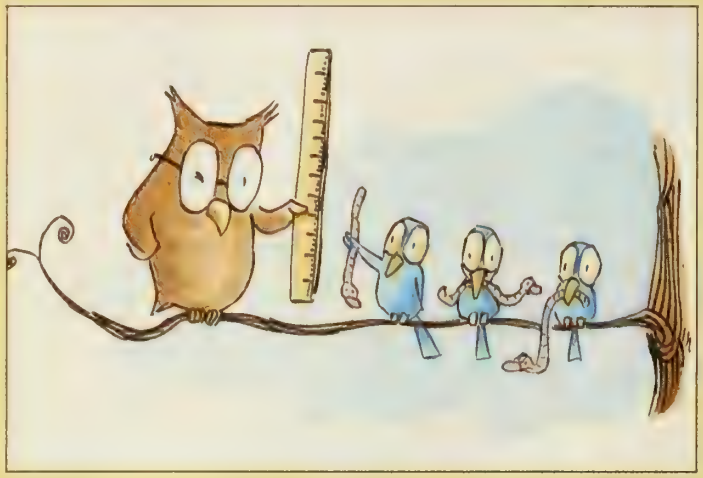
Annual Fund Ratings/Rules

FORBES RATES FUNDS separately in bull and bear markets. There are two advantages to this approach over a simple straight-line performance grade. One is that it makes explicit the fact that funds tend to do well in only one kind of market environment. The other is that it enables you to get a good sense of the risk in a fund. Funds with the worst bear market grades are the riskiest. This is key to an investment decision: You trade off risk against return.

The chart opposite displays the three market cycles over which we rate stock funds. Funds with records across three up periods are compared with one another and graded on the curve for bull market performance. Funds with only two segments of bull market performance are graded separately against one another. Bear market grades are awarded in similar fashion.

Balanced funds, which invest in a mix of stocks and bonds, are evaluated over the same market cycles as stock funds. But they have their own grading pools. We generally consider convertible bond funds and "asset allocation" funds that switch between stocks and bonds to be balanced.



Patrick McDonnell

Foreign stock funds are graded against one another in a similar way. But their up and down segments, which are defined by a Morgan Stanley index, are different; see the chart on page 212. Taxable bond funds are rated against the Merrill Lynch index shown on page 220. Municipal bond funds (page 230) are given separate up and down market grades for performance over the past five years. For them, the five-year period is divided into individual one-month up or down segments as defined by a Shearson Lehman municipal bond index.

The "average annual total return" shows the compound annual return of the fund over three full market cycles. This and the other performance figures—yield and 12-month total return—are net of expenses taken off the top by the fund sponsor. That's because expenses come out before dividends are distributed. Those distributions are in turn used, along with the fund net asset values printed in the daily newspapers, to calculate a performance figure. In the calculation of total return we assume that a distribution is reinvested in additional shares of the fund at the end of the month in which the payout went ex-dividend.

Why do we print expense ratios if overhead costs are already reflected in performance numbers? Because they are the one component of performance that is very predictable. A lucky manager can put his fund at the top of a chart in spite of an excessive management fee or high overhead. The next year he may not be so lucky. But management fees and other expenses will continue as a drag on performance. Expenses as we define them include management fees, 12b-1 "distribution" fees and overhead. They do not include interest or brokerage commissions for the fund's trading.

Our performance numbers—both those displayed in the tables and those used to award grades—do not take into account sales charges. Thus we are measuring portfolio management skills rather than investment results. The only exception is in the "hypothetical investment results" column of the honor roll (page 126). Performance and other data are as of June 30.

Sometimes a fund sponsor merges a large fund with a bad record into a small fund with a clean record. We treat this transaction as if the merger had gone the reverse way, thus preserving the large fund's performance history. This explains why our performance numbers for several funds differ from those claimed by the funds. Also, we do not expunge a fund's history when its management changes hands.

Funds marketed by several brokers, including Merrill Lynch and Pru-Bache, give investors a choice between shares with a declining back-end load and fairly high 12b-1 fees, and shares with a front-end load and little or no 12b-1 fees. We report performance for the latter type of shares but assets for the entire fund.

Yield is the sum of dividends from investment income over the past 12 months, divided by the June 30 net asset value. It may differ from the 30-day yield as defined by the Securities & Exchange Commission.

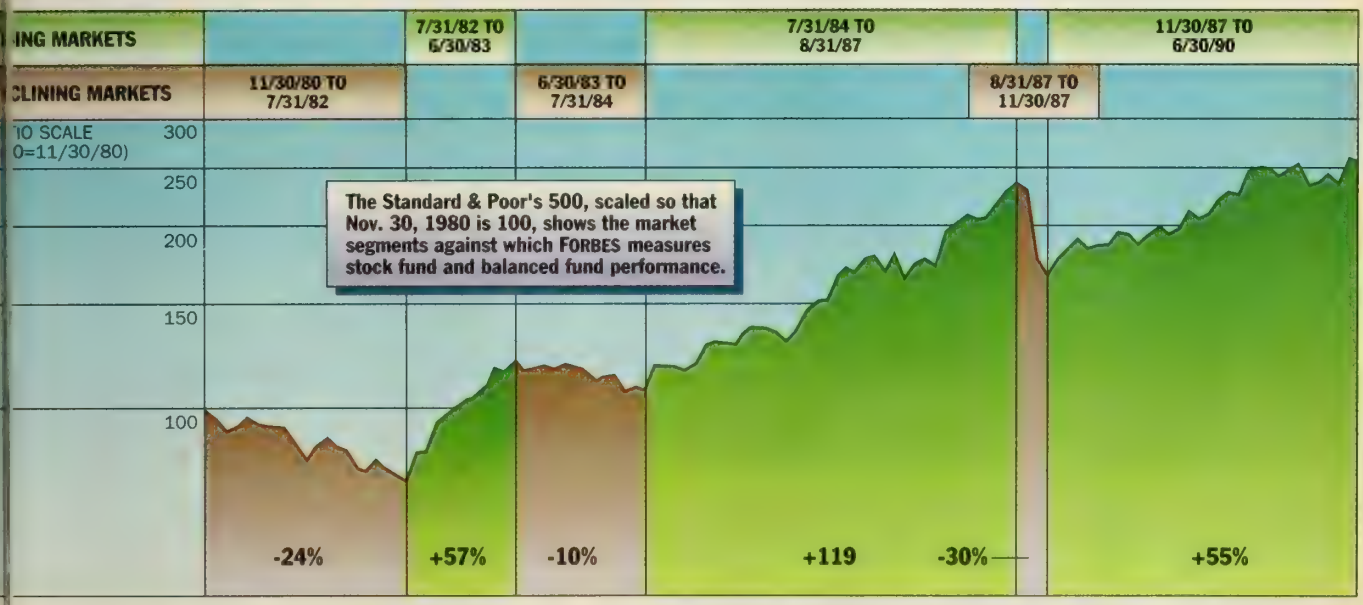
To be included in the annual survey a fund must have a minimum investment below $100,000 and be open to the general public. An exception to the latter rule is made for certain widely held membership-only funds, such as those of the American Association of Retired Persons. A fund must have 12 months of performance data before we add it to our catalog.

A stock or balanced fund is added to the survey when it reaches $5 million in assets and dropped when assets fall below $2 million. Taxable bond funds must have either $100 million in assets or $25 million and either a foreign portfolio or enough history to be rated. Municipal bond funds must have either $100 million in assets or $25 million and a single-state portfolio. Taxable money markets must have $500 million in assets; tax-free money markets, $100 million or $25 million and a single-state portfolio.

Much of the raw data for this issue come from CDA Investment Technologies in Rockville, Md. and Lipper Analytical Services in New York City. ■

tock funds

ES rates stock funds over the three market cycles shown ie chart below. To be rated, a fund must have been in ence for at least two of the market cycles, that is, since 30, 1983. Foreign stock funds, a category that includes t gold funds, are rated separately against a different hmark (see page 212). Performance and other data are as ne 30, 1990. For more information about a fund, call or write the distributor listed after the fund name, using the table of distributors that begins on page 248. Closed-end funds have no distributor; they can be bought and sold in the secondary market through a broker, like shares of industrial companies. The average annual total return is compounded; it and other performance numbers are calculated after deducting expenses but before sales load.



erformance in UP	in DOWN —markets—	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Annual expenses per $100
		Standard & Poor's 500 stock average	14.9%	16.4%	3.2%				
		Forbes stock fund composite	12.1%	12.3%	2.7%				$1.44
		AAL Capital Growth Fund/AAL Mutual	—*	16.8%	2.1%	$143	155%	4.75%	*$1.40p*
		AARP Growth–Capital Growth/Scudder	—*	1.3	0.6	219	50	none	1.11
		AARP Growth–Growth & Income/Scudder	—*	7.0	4.3	269	23	none	1.08
C	D	ABT Growth & Income Trust/ABT	10.0%	5.3	4.4	96	–7	4.75	*1.23*
•A	•D	ABT Invest–Emerging Growth/ABT	—*	16.5	none	20	–4	4.75	*1.78*
•D	•A	ABT Invest–Security Income/ABT	—*	–4.2	5.9	5	–32	4.75	*2.32*
D	A	ABT Utility Income Fund/ABT	11.5	11.6	6.2	144	24	4.75	*1.21*
B	C	Acorn Fund/Acorn	14.5	12.3	1.3	953	29	none§	0.73
		Adam Investors/Siebel	—*	17.5	5.1	4	43	none	1.71
D	B	Adams Express/closed-end	12.5	16.5	3.9	567	11	NA	0.51
		Advance Amer–Equity Inc/Oppenheimer	—*	2.5	2.5	11	15	4.75	*2.29p*
		Advantage Growth Fund/Advest	—*	13.4	1.2	30	8	4.00b	*2.33*

• nd rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. §Distributor may impose redemption fee whose proceeds revert to fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force* b: Includes back-end load that reverts istributor. p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or not available.

Distributor table, page 248. Rules, page 176.

Annual Fund Ratings

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Ann expe per
		Standard & Poor's 500 stock average	14.9%	16.4%	3.2%				
		Forbes stock fund composite	12.1%	12.3%	2.7%				$1.4
C	B	Affiliated Fund/Lord Abbett	14.4%	11.1%	4.4%	$3,554	2%	6.75%	*$0.4*
F	C	Afuture Fund/Afuture	2.9	0.9	0.9	7	–15	none	1.5
C	B	Aim Equity–Charter Fund/AIM	13.0	23.7	3.6	90	36	5.50	*1.*
A+	F	Aim Equity–Constellation Fund/AIM	12.1	33.4	0.1	129	53	5.50	*1.*
A+	D	Aim Equity–Weingarten Equity/AIM	16.1	30.6	0.5	684	101	5.50	*1.2*
•B	•D	Aim Summit Fund/AIM	—*	19.6	1.9	306	43	**	0.8
		Alger Fund–Growth/Alger	—*	30.1	none	7	30	5.00b	*3.2*
		Alger Fund–Small Capitalization/Alger	—*	33.6	none	31	300	5.00b	*2.7*
		Alliance Counterpoint Fund/Alliance	—*	1.4	1.2	57	8	5.50	*1.6*
B	D	Alliance Fund/Alliance	11.0	14.4	2.0	724	–12	5.50	*0.7*
C	B	Alliance Growth & Income[1]/Alliance	15.1	12.5	3.6	370	1	5.50	*1.0*
A+	D	Alliance Quasar Fund/Alliance	14.4	2.5	none	343	84	5.50	*1.1*
A+	•D	Alliance Technology Fund/Alliance	—*	25.8	none	166	11	5.50	*1.6*
D	D	AMA Family of Funds–Classic Grow/AMA	8.1	6.5	3.2	17	–50	none	*1.7*
		AMA Family of Funds–Growth + Inc/AMA	—*	6.7	2.4	9	–20	none	*2.1*
C	B	Amcap Fund/American Funds	14.7	14.6	2.5	2,163	14	5.75	*0.7*
C	A	American Capital Comstock/American Cap	15.5	15.9	3.5	952	5	8.50	0.6
B	D	American Capital Enterprise/American Cap	10.4	16.3	3.5	602	6	5.75	*0.7*
B	D	American Capital Exchange Fund/‡	11.1	19.8	2.2	41	–9	none	0.7
C	A	American Capital Pace Fund/American Cap	16.3	13.5	2.9	2,457	2	5.75	*0.7*
D	A	American Capital Venture/American Cap	13.2	24.8	1.5	242	25	5.75	*0.9*
		American Gas Index Fund/Rushmore	—*	10.8	4.5	93	189	none	0.75
D	A	American Growth Fund/American Growth	9.7	12.4	4.0	59	–2	8.50	1.32
C	F	American Investors Growth/Amer Investors	0.5	15.3	0.4	73	13	8.50	1.55
D	A	American Leaders Fund/Federated	15.2	7.0	4.3	150	0	4.50	*1.02*
D	A	American Mutual Fund/American Funds	16.1	10.9	4.9	3,492	18	5.75	*0.55*
B	C	American National Growth/Securities Mgmt	13.6	12.1	2.7	107	4	8.50	1.06
D	A	American National Income/Securities Mgmt	14.9	12.8	4.2	74	13	8.50	1.17
		AMEV Advantage–Capital Apprec/AMEV	—*	35.1	0.1	23	118	4.50	*1.80*
A	B	AMEV Capital Fund/AMEV	15.2	18.4	1.6	159	26	4.75	*1.16*
A	•C	AMEV Fiduciary Fund/AMEV	—*	19.3	0.7	35	16	4.50	*1.42*
A	C	AMEV Growth Fund/AMEV	15.2	23.3	0.2	256	22	4.75	*1.01*
C	C	Amway Mutual Fund/Amway	11.1	21.7	0.9	41	14	6.50	1.20
D	A	Analytic Optioned Equity Fund/Analytic Option	11.3	9.7	3.7	108	–2	none	1.09
		API Trust–Growth/Amer Pension	—*	3.5	0.8	31	–4	none	*2.60*
D	C	Armstrong Associates/Armstrong	7.9	5.6	3.3	10	0	none	1.90

•Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. ‡Exchange fund, not currently selling new shares. **Availab only through monthly contractual plan. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in for* b: Includes back-end load that reverts to distributor. p: Net of partial absorption of expenses by fund sponsor. [1]Formerly Alliance Dividend Shares.

Distributor table, page 248. Rules, page 176.

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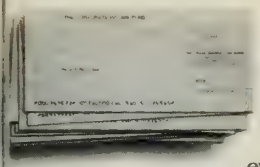

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Annual Fund Ratings

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Ann expe per $
		Standard & Poor's 500 stock average	14.9%	16.4%	3.2%				
		Forbes stock fund composite	12.1%	12.3%	2.7%				$1.4
		ASO Outlook Group–Equity/Winsbury	—*	10.9%	2.8%	$15	314%	none	$1.2
		Associated Planners Stock Fund/Assoc Plan	—*	21.2	1.5	20	34	4.75%	2.2
A	F	Axe-Houghton Stock Fund/Axe	9.0%	19.0	0.7	70	14	none	*1.6*
		Babson Enterprise Fund/Jones & Babson	—*	8.7	1.4	96	33	none	1.2
C	D	Babson Growth Fund/Jones & Babson	11.3	6.1	2.4	259	–3	none	0.8
		Babson Value Fund/Jones & Babson	—*	4.5	2.7	25	123	none	1.0
		Baird Blue Chip Fund/Baird	—*	20.5	1.8	33	63	5.75	*1.86*
		Baird Capital Development Fund/Baird	—*	18.9	0.5	23	18	5.75	*1.86*
D	B	Baker, Fentress & Co/closed-end	11.7	0.1	3.0	447	–6	NA	0.64
		Baron Asset Fund/Baron	—*	–2.2	1.1	55	74	2.00b	*1.78*
•D	•A	Bartlett Capital–Basic Value/Bartlett	—*	5.3	6.8	109	2	none	1.19
•D	•A	Bascom Hill Investors/Madison	—*	–5.0	5.4	9	–2	none	1.16
D	B	Beacon Hill Mutual Fund/Beacon Hill	11.0	17.2	none	4	18	none	3.57
		Benham Gold Equities/Benham	—*	9.8	0.5	79	452	none	1.00
B	D	Berger One Hundred Fund[1]/Berger	11.7	28.0	0.1	19	59	none	*1.62*
C	A	Bergstrom Capital/closed-end	18.2	17.8	1.5	73	9	NA	0.97
		Berwyn Fund/Berwyn	—*	0.7	0.7	14	13	none§	1.42
		Blanchard Precious Metals Fund/Sheffield	—*	–12.5	0.5	30	19	none[2]	*2.95*
		Blanchard Strategic Growth/Sheffield	—*	7.9	2.5	243	–2	none[2]	*2.28*
		Blue Chip Value Fund/closed-end	—*	11.8	10.2	73	1	NA	1.38
B	C	Boston Co Capital Appreciation/Boston Co	13.8	7.3	2.1	606	11	none,	*1.23*
		Boston Co Special Growth Fund/Boston Co	—*	–0.8	1.7	44	–6	none	*1.80*
		Brandywine Fund/Brandywine	—*	31.8	0.2	287	94	none	1.12
D	B	Bridges Investment Fund/Bridges	10.9	15.1	4.1	12	21	none§	1.02
C	D	Bull & Bear Capital Growth/Bull & Bear	8.2	17.3	none	72	2	none	*2.66*
D	B	Bull & Bear Equity-Income Fund/Bull & Bear	10.2	7.2	3.5	11	–8	none	*2.98*
		Bull & Bear Finl News Comp/Bull & Bear	—*	12.4	2.7	10	–84	none	*1.53*
		Bull & Bear Special Equities/Bull & Bear	—*	44.3	none	32	731	none	*3.50p*
D	A	Burnham Fund/Burnham	13.0	8.8	5.8	133	–22	5.00	1.08
		Calvert Ariel Growth Fund/Calvert	—*	8.7	1.4	248	169	†	*1.41*
•B	•C	Calvert Fund–Capital Value[3]/Calvert	—*	15.7	1.2	10	30	4.50	*1.48*
		Calvert Fund–Washington Area Gr/Calvert	—*	–12.1	none	16	–21	4.50	*2.41*
		Calvert Social Inv–Equity/Calvert	—*	11.8	1.3	22	296	4.50	0.21p
C	B	Capital Exchange Fund/‡	12.7	20.9	2.0	79	12	NA	0.89
		Capital Income Builder/American Funds	—*	9.6	5.2	222	28	5.75	*1.11*
		Capstone EquityGuard Stock/Capstone	—*	–4.5	2.5	2	–55	4.75	2.50p

•Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. †Closed to new investors. ‡Exchange fund, not currently sellin new shares. §Distributor may impose redemption fee whose proceeds revert to the fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 pla exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. *p: Net of partial absorption of expenses by fund sponsor. N Not applicable or not available. [1]Formerly One Hundred Fund. [2]Flat fee of $125 on initial investment. [3]Formerly Calvert Fund–Equity.

Distributor table, page 248. Rules, page 176.

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-Barbara Champney

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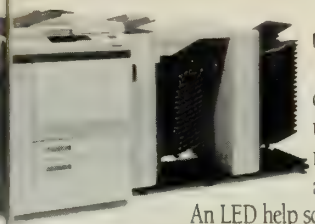

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Annual Fund Ratings

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	An exp per
		Standard & Poor's 500 stock average	14.9%	16.4%	3.2%				
		Forbes stock fund composite	12.1%	12.3%	2.7%				$1.
C	A	Cardinal Fund/Cardinal	15.8%	10.1%	4.8%	$198	27%	8.50%	$0.
		Carnegie-Cappiello–Growth/Carnegie	—*	14.2	1.5	78	31	4.50	1.
		Carnegie-Cappiello–Total Return/Carnegie	—*	4.7	5.0	81	16	4.50	1.
		Cashman Farrell Value Fund/Capstone	—*	–4.0	2.7	10	1	4.75	1.
D	D	Central Securities/closed-end	8.7	–6.1	0.9	123	–2	NA	1.
C	A	Century Shares Trust/Century Shares	17.1	15.2	2.7	143	12	none	0.
A+	B	CGM Capital Devel[1]/New England	20.3	24.4	1.6	208	8	†	0.
		Champion High Yield Fund/Oppenheimer	—*	5.9	12.9	16	–31	4.75	1.
B	B	Chestnut Street Exchange Fund/‡	15.0	17.5	2.3	171	11	NA	0.
		Cigna Aggressive Growth Fund/Cigna Mutual	—*	18.7	0.2	12	–6	5.00	1.
B	C	Cigna Growth Fund/Cigna Mutual	12.3	23.3	1.8	187	5	5.00	1.
		Cigna Utilities/Cigna Mutual	—*	12.8	5.2	67	81	5.00	1.
		Cigna Value Fund/Cigna Mutual	—*	28.5	2.6	91	33	5.00	1.
		Clipper Fund/Pacific Finl	—*	0.9	2.4	151	45	none	1.
A	D	Colonial Growth Shares Trust/Colonial	13.1	13.3	1.6	133	21	6.75	1.
		Colonial Small Stock Index Trust/Colonial	—*	0.4	0.3	43	–8	4.75	1.
D	B	Colonial Strategic Inc–Diversified/Colonial	8.7	4.1	10.4	433	–22	6.75	1.
		Colonial Strategic Inc–Inc Plus/Colonial	—*	1.4	11.7	79	–27	6.75	1.
		Colonial US Equity Index Trust/Colonial	—*	14.2	1.9	38	13	4.75	1.
		Colonial VIP Equity–Div Return/Colonial	—*	5.5	2.8	27	127	5.00b	2.
		Colonial VIP Equity–Growth[2]/Colonial	—*	3.1	0.6	12	75	5.00b	2.
		Colonial VIP Equity–Inflation Hedge/Colonial	—*	11.9	2.7	6	43	5.00b	2.
A	C	Columbia Growth Fund/Columbia	15.3	16.6	2.2	329	38	none	0.
		Columbia Special Fund/Columbia	—*	18.7	0.1	142	124	none	1.
		Common Sense–Growth/Common Sense	—*	18.5	1.5	988	47	8.50	1.
		Common Sense–Grow & Inc/Common Sense	—*	15.5	2.4	402	77	8.50	1.
D	A	Commonwealth Inv–Growth[3]/Trusteed	14.6	10.5	3.8	8	17	7.50	1.
D	A	Composite Growth Fund/Murphey Favre	13.2	0.9	4.5	70	–3	4.00	1.
		Composite Northwest 50 Fund/Murphey Favre	—*	28.9	0.5	45	360	4.50	1.
		Connecticut Mutual–Growth/Phelps	—*	18.2	4.0	39	22	6.25	1.
D	•A	Copley Fund/Copley	—*	6.0	none	30	18	none	1.
		Counsellors Capital Appreciation/Counsellors	—*	9.8	1.9	74	45	none	1.
		Counsellors Emerging Growth/Counsellors	—*	4.5	2.9	31	35	none	1.
		Counsellors Tandem Securities/closed-end	—*	14.2	1.8	65	–35	NA	1.
C	C	Country Capital Growth Fund/Country Cap	12.3	15.9	3.7	82	10	3.00	0.
		Cowen Income + Growth Fund/Cowen	—*	2.5	4.3	44	–2	4.85	2.

•Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. †Closed to new investors. ‡Exchange fund, not currently sell new shares. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load reverts to distributor. p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or not available. [1]Formerly Loomis-Sayles Capital Developme [2]Formerly Colonial VIP–Aggressive Growth. [3]Formerly GPM Fund.

Distributor table, page 248. Rules, page 176.

erformance in UP —markets—	in DOWN	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Annual expenses per $100
		Standard & Poor's 500 stock average	14.9%	16.4%	3.2%				
		Forbes stock fund composite	12.1%	12.3%	2.7%				$1.44
		Cowen Opportunity Fund/Cowen	—*	33.2%	none	$9	27%	4.85%	*$3.28p*
		Cypress Fund/closed-end	—*	1.7	none	63	–28	NA	3.05p
C	C	Dean Witter American Value/Dean Witter	10.6%	12.3	2.0%	101	11	5.00b	*1.66*
•D	•D	Dean Witter Devel Grow Secs/Dean Witter	—*	27.0	0.4	97	14	5.00b	*1.94*
C	•A	Dean Witter Div Grow Secs/Dean Witter	—*	10.3	3.3	3,111	45	5.00b	*1.41*
C	•C	Dean Witter Natural Res Dev/Dean Witter	—*	14.2	3.2	159	17	5.00b	*1.81*
		Dean Witter Option Income/Dean Witter	—*	7.1	5.3	179	–23	5.00b	*2.06*
		Dean Witter Utilities Fund/Dean Witter	—*	7.3	5.8	1,268	92	5.00b	*1.68*
		Dean Witter Value-Added Mkt/Dean Witter	—*	6.1	1.7	148	90	5.00b	*1.94*
D	A	Delaware Group Decatur Fund–I/Delaware	15.5	3.0	6.3	1,850	7	8.50	0.67
		Delaware Group Decatur Fund–II/Delaware	—*	6.1	4.8	374	46	4.75	*1.24*
		Delaware Group DelCap Fund–I/Delaware	—*	17.8	0.8	192	62	4.75	*1.42*
A+	C	Delaware Group Trend Fund/Delaware	16.4	14.1	0.5	88	31	8.50	1.30
		Delaware Group Value Fund/Delaware	—*	3.5	1.1	10	3	4.75	*1.72*
B	D	Depositors Fund of Boston/‡	11.7	15.2	1.9	58	2	NA	0.85
B	C	Diversification Fund/‡	13.8	16.3	1.8	69	9	NA	0.85
F	•B	Dividend/Growth–Dividend/Dividend Growth	—*	9.3	3.2	2	–14	none	2.49
A	B	Dodge & Cox Stock Fund/Dodge & Cox	16.3	15.5	3.0	157	58	none	0.65
		Dover Regional Financial Shares/closed-end	—*	–22.0	2.3	5	–25	NA	1.96
		Dreyfus Capital Value Fund/Dreyfus	—*	–3.4	6.3	679	17	4.50	*1.22*
D	A	Dreyfus Fund/Dreyfus	13.0	14.4	4.8	2,747	16	none	0.75
C	D	Dreyfus Growth Opportunity Fund/Dreyfus	8.3	7.4	4.4	512	–12	none	1.00
		Dreyfus Index Fund/Dreyfus	—*	15.3	3.1	66	53	none	0.85
D	B	Dreyfus Leverage Fund/Dreyfus	11.6	13.6	4.3	474	2	4.50	1.58
		Dreyfus New Leaders Fund/Dreyfus	—*	16.3	1.3	183	87	none	*1.37*
		Dreyfus Strategic Aggres Inv LP/Dreyfus	—*	6.3	none	80	–40	3.00	*3.06p*
		Dreyfus Strategic Investing/Dreyfus	—*	14.9	1.1	112	10	4.50	*2.09p*
D	C	Dreyfus Third Century Fund/Dreyfus	9.6	19.5	2.5	197	23	none	1.04
D	B	Eagle Growth Shares/Baxter	9.2	–1.3	0.3	4	42	8.50	1.53p
		Eaton Vance Equity-Income/Eaton Vance	—*	5.6	5.5	42	791	6.00b	*1.25p*
B	B	Eaton Vance Growth Fund/Eaton Vance	14.3	18.8	0.9	91	7	4.75	*0.99*
D	B	Eaton Vance Special Equities/Eaton Vance	11.6	25.3	none	59	15	4.75	*1.22*
C	B	Eaton Vance Stock Fund/Eaton Vance	13.5	18.5	3.5	88	7	4.75	0.90
D	•A	Eaton Vance Total Return/Eaton Vance	—*	8.8	6.1	480	–1	4.75	*1.15*
		Eclipse Financial Asset–Equity[1]/Eclipse	—*	3.5	2.2	200	8	none	1.09
A	F	Engex/closed-end	6.0	3.5	2.2	12	–6	NA	2.25

ınd rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. ‡Exchange fund, not currently selling new shares. *Expense ratio n italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of tial absorption of expenses by fund sponsor. NA: Not applicable or not available. [1]Formerly Eclipse Equity Fund.

Distributor table, page 248. Rules, page 176.

Annual Fund Ratings

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	An exp per
		Standard & Poor's 500 stock average	14.9%	16.4%	3.2%				
		Forbes stock fund composite	12.1%	12.3%	2.7%				$1.
		Enterprise Group–Cap Apprec[1]/Enterprise	—*	25.4%	none	$13	205%	4.75%	$2.
B	B	Enterprise Group–Growth/Enterprise	15.9%	14.3	0.2%	61	27	4.75	2.
		Enterprise Group–Growth & Inc/Enterprise	—*	4.0	3.6	35	65	4.75	2
		Equitable Funds–Growth/Equitable	—*	12.0	none	19	101	5.00b	2.
		Equitec Siebel Aggressive Growth/Equitec	—*	12.1	0.4	32	–9	5.00b	2.
		Equitec Siebel Total Return Fund/Equitec	—*	12.9	3.5	126	–4	5.00b	1.
B	•C	Equity Strategies Fund/EQSF	—*	51.4	2.9	69	39	†	1.2
		Evergreen American Retirement/Lieber	—*	5.0	5.9	12	19	none	1.8
B	C	Evergreen Fund/Lieber	12.5	1.9	2.9	733	–7	none	1.1
		Evergreen Global Real Estate/Lieber	—*	9.5	1.7	7	18	none	2.0
•A	•B	Evergreen Limited Market Fund/Lieber	—*	8.4	2.0	42	17	†	1.3
D	A	Evergreen Total Return Fund/Lieber	14.9	1.5	6.0	1,239	–9	none	1.1
		Evergreen Value Timing Fund/Lieber	—*	11.2	4.3	39	35	none	1.5
		Excel Midas Gold Shares/Excel	—*	6.9	none	9	–16	4.50	2.2
D	•B	Excel Value Fund/Excel	—*	6.1	3.5	3	–25	4.50	3.1
B	C	Exchange Fund of Boston/‡	13.3	13.1	1.9	64	7	NA	0.8
D	•C	Fairmont Fund/Fairmont	—*	–7.6	1.4	26	–51	none	1.6
D	C	FBL–Growth Common Stock/FBL	7.2	9.9	5.6	36	–3	5.00b	1.6
C	C	Federated Exchange Fund/‡	12.4	8.5	2.6	94	–3	NA	1.07
		Federated Growth Trust/Federated	—*	17.3	4.0	180	29	none	1.01
C	•A	Federated Stock Trust/Federated	—*	4.2	3.4	446	–26	none	1.00
		Fidelity Blue Chip Growth Fund/Fidelity	—*	29.6	0.8	149	229	3.00b	1.35
		Fidelity Capital Appreciation/Fidelity	—*	4.4	1.5	2,074	–5	3.00b	1.14
A	B	Fidelity Congress Street Fund/‡	17.2	23.1	2.9	63	10	none	0.62
A	D	Fidelity Contrafund/Fidelity	14.4	24.7	1.4	537	178	3.00	0.95
A	B	Fidelity Destiny Portfolio I/Fidelity	18.9	12.1	2.7	1,833	10	**	0.56
		Fidelity Destiny Portfolio II/Fidelity	—*	14.3	1.7	221	54	**	0.92
		Fidelity Disciplined Equity/Fidelity	—*	20.5	0.9	125	334	3.00§	1.28
C	A	Fidelity Equity Income Fund/Fidelity	16.0	–0.5	6.9	4,739	–1	2.00	0.71
B	C	Fidelity Exchange Fund/‡	14.8	18.0	2.9	169	6	none	0.58p
•A	•C	Fidelity Freedom Fund/Fidelity	—*	20.5	2.4	1,614	20	none	0.92
B	B	Fidelity Fund/Fidelity	14.6	12.9	3.8	1,154	16	none	0.64
		Fidelity Growth & Income/Fidelity	—*	10.9	4.4	1,901	43	2.00	0.86
•A	•D	Fidelity Growth Company/Fidelity	—*	28.7	0.7	673	205	3.00	0.95p
A+	B	Fidelity Magellan Fund/Fidelity	23.1	16.7	2.4	14,039	31	3.00	1.03
		Fidelity OTC Portfolio/Fidelity	—*	10.5	2.5	729	–5	3.00	1.33

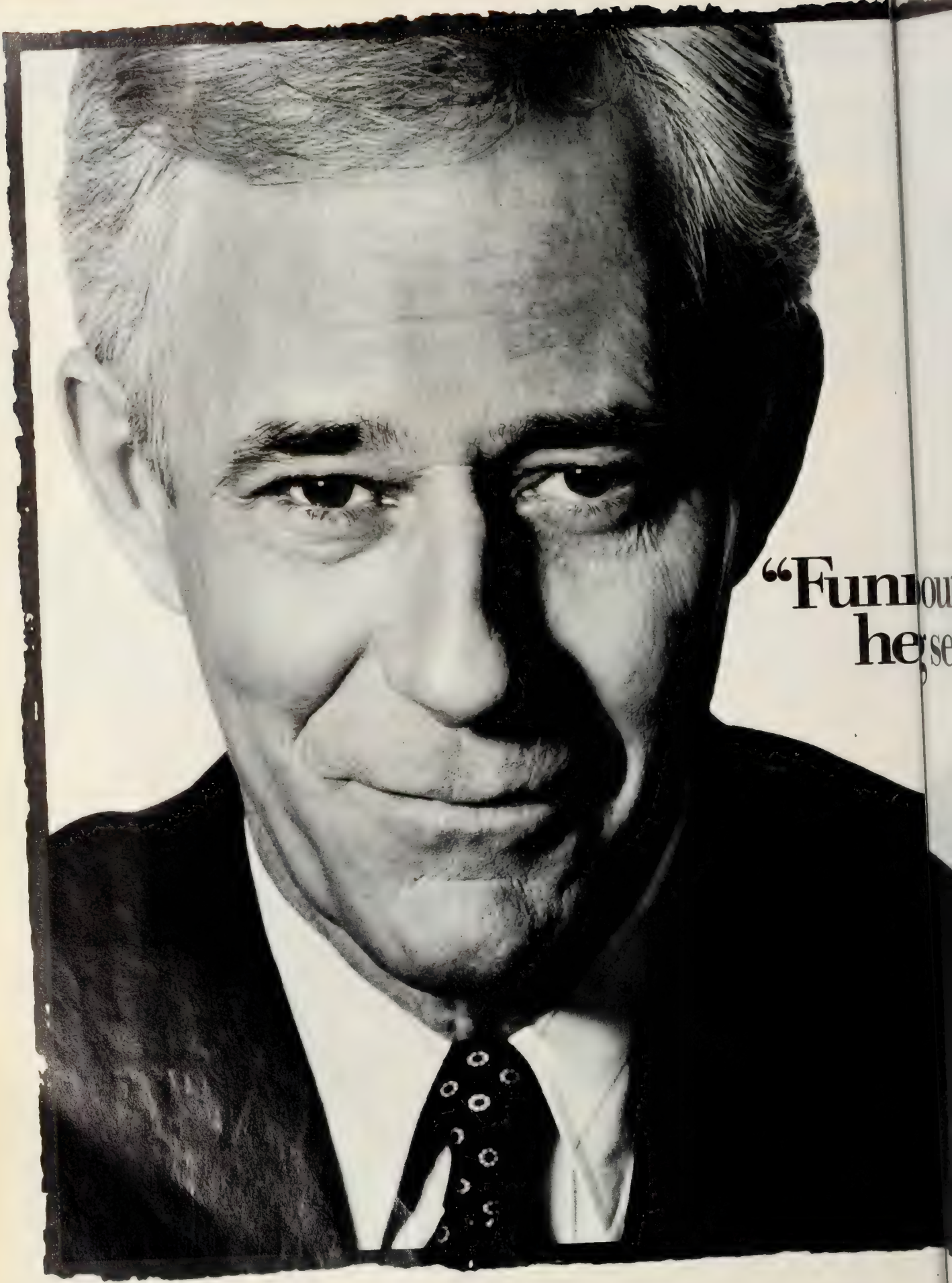
•Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. †Closed to new investors. ‡Exchange fund, not currently sellin new shares. **Available only through monthly contractual plan. §Distributor may impose redemption fee whose proceeds revert to the funds. *Expense ratio is in italics the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of parti absorption of expenses by fund sponsor. NA: Not applicable or not available. [1]Formerly Enterprise Group–Aggressive Growth.

Distributor table, page 248. Rules, page 176.

formance in DOWN markets		Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Annual expenses per $100
		Standard & Poor's 500 stock average	14.9%	16.4%	3.2%				
		Forbes stock fund composite	12.1%	12.3%	2.7%				$1.44
		Fidelity Plymouth–Growth Oppor/Fidelity	—*	12.4%	0.3%	$56	149%	4.00%	*$2.23*
		Fidelity Plymouth–Income & Grow/Fidelity	—*	7.2	9.1	62	48	4.00	*1.88*
		Fidelity Real Estate Investment/Fidelity	—*	0.4	5.5	45	–22	none	1.39
		Fidelity Select–Air Transportation/Fidelity	—*	3.5	none	4	–53	3.00b	2.55p
		Fidelity Select–American Gold/Fidelity	—*	6.0	none	198	8	3.00b	1.85
		Fidelity Select–Biotechnology/Fidelity	—*	56.4	none	157	290	3.00b	2.07
		Fidelity Select–Broadcast & Media/Fidelity	—*	–14.2	none	8	–84	3.00b	2.51
		Fidelity Select–Brokerage & Inv/Fidelity	—*	2.2	1.4	4	3	3.00b	2.50p
		Fidelity Select–Capital Goods/Fidelity	—*	19.5	0.7	2	–5	3.00b	2.59p
		Fidelity Select–Chemicals/Fidelity	—*	9.1	1.0	22	–40	3.00b	2.37
		Fidelity Select–Computers/Fidelity	—*	31.1	none	34	229	3.00b	2.64p
		Fidelity Select–Electric Utilities/Fidelity	—*	8.2	2.0	24	92	3.00b	2.30
		Fidelity Select–Electronics/Fidelity	—*	46.7	none	43	575	3.00b	2.57p
D	•C	Fidelity Select–Energy/Fidelity	—*	17.8	1.4	86	5	3.00b	1.94
		Fidelity Select–Energy Service/Fidelity	—*	43.0	none	80	111	3.00b	2.29
		Fidelity Select–Environ Serv/Fidelity	—*	30.4	0.1	128	NM	3.00b	2.25
C	•B	Fidelity Select–Financial Services/Fidelity	—*	–6.0	0.3	23	–29	3.00b	2.22
		Fidelity Select–Food & Agriculture/Fidelity	—*	25.2	0.2	32	44	3.00b	2.53p
A+	•D	Fidelity Select–Health Care/Fidelity	—*	38.2	0.5	292	70	3.00b	1.74
		Fidelity Select–Industrial Materials/Fidelity	—*	–0.4	2.7	3	–55	3.00b	2.59p
		Fidelity Select–Leisure/Fidelity	—*	–5.5	0.2	51	–30	3.00b	1.96
		Fidelity Select–Medical Delivery/Fidelity	—*	33.9	0.2	45	205	3.00b	2.16
		Fidelity Select–Paper & Forest Prod/Fidelity	—*	–1.4	1.3	5	–34	3.00b	2.57p
D	•C	Fidelity Select–Prec Metals & Mins/Fidelity	—*	4.1	1.5	185	–3	3.00b	1.93
		Fidelity Select–Prop & Casualty/Fidelity	—*	15.9	0.9	3	4	3.00b	2.50p
		Fidelity Select–Regional Banks/Fidelity	—*	–10.7	1.0	7	–66	3.00b	2.55p
		Fidelity Select–Retailing/Fidelity	—*	22.2	1.0	11	24	3.00b	2.50p
		Fidelity Select–Savings & Loan/Fidelity	—*	–11.5	0.4	7	–55	3.00b	2.53p
		Fidelity Select–Software & Comp/Fidelity	—*	29.0	none	16	56	3.00b	2.56p
A	•D	Fidelity Select–Technology/Fidelity	—*	26.3	none	93	16	3.00b	2.09
		Fidelity Select–Telecom/Fidelity	—*	9.7	0.4	79	–26	3.00b	1.85
D	•A	Fidelity Select–Utilities/Fidelity	—*	12.0	1.5	134	38	3.00b	1.67
		Fidelity Special Situations–Initial/Fidelity	—*	6.2	3.8	18	–8	†	1.00
		Fidelity Special Situations–Plymouth/Fidelity	—*	5.8	3.0	195	3	4.00	*1.56*
B	D	Fidelity Trend Fund/Fidelity	11.5%	7.6	1.3	837	1	none	0.58
		Fidelity Utilities Income/Fidelity	—*	8.8	6.9	180	33	none	1.02

d rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. †Closed to new investors. *Expense ratio is in italics if the fund has reholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of partial absorption of nses by fund sponsor. NM: Not meaningful.

Distributor table, page 248. Rules, page 176.



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Annual Fund Ratings

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	An exp per
		Standard & Poor's 500 stock average	14.9%	16.4%	3.2%				
		Forbes stock fund composite	12.1%	12.3%	2.7%				$1.
B	C	Fidelity Value Fund/Fidelity	13.6%	–0.8%	1.1%	$119	–20%	none	$1.
C	•C	Fiduciary Capital Growth/Fiduciary Mgmt	—*	8.1	1.1	25	–40	none	1.
A	C	Fiduciary Exchange Fund/‡	14.5	21.3	1.7	52	–5	NA	0.
C	D	Financial Dynamics Fund/Financial Prog	10.0	19.4	1.6	73	–18	none	0.
C	D	Financial Industrial Fund/Financial Prog	11.0	26.9	2.0	415	22	none	0.
C	A	Financial Industrial Income/Financial Prog	15.9	21.0	4.3	572	43	none	0.
		Financial Strategic–Energy/Financial Prog	—*	11.0	2.0	12	46	none	1.
		Financial Strategic–Gold/Financial Prog	—*	4.4	0.4	40	40	none	1.
		Financial Strategic–Health Sci/Financial Prog	—*	55.4	0.4	88	520	none	1.
		Financial Strategic–Leisure/Financial Prog	—*	13.5	1.4	9	–36	none	1.
		Financial Strategic–Technology/Financial Prog	—*	44.7	none	46	419	none	1.
		Financial Strategic–Utilities/Financial Prog	—*	4.9	3.8	29	40	none	1.
		First Eagle Fund of America/First Eagle	—*	6.6	0.9	90	18	none§	2.
		First Financial Fund/closed-end	—*	–29.7	3.9	63	–34	NA	1.
		First Investors Blue Chip/First Inv	—*	15.8	3.4	44	223	6.90%	*0.*
		Flag Investors Emerging Growth/Brown	—*	7.8	7.7	53	20	4.50	*1.*
		Flag Investors Telephone Income/Brown	—*	12.7	5.1	180	37	4.50	*0.*
•F	•A	Flex-funds–Growth Fund[1]/Flex	—*	1.5	2.7	26	–23	none	*1.*
		Flex-funds–Muirfield Fund/Flex	—*	10.9	2.0	30	12	none	*1.*
		Fortress Hi Quality Stock[2]/Federated	—*	4.7	3.1	18	–9	1.75b	*1.*
		Fortress Utility Trust[3]/Federated	—*	11.5	6.1	38	164	1.75b	1.0
A	F	44 Wall Street Equity Fund/Beckerman	–1.2	12.4	none	4	2	1.00	4.1
F	F	44 Wall Street Fund/Beckerman	–16.1	–10.6	none	5	–29	†	9.2
B	C	Founders Blue Chip/Founders	13.8	19.4	2.1	258	25	none	*0.9*
F	A+	Founders Equity Income Fund/Founders	12.4	7.2	4.2	15	11	none	*1.5*
		Founders Frontier Fund/Founders	—*	15.1	0.3	71	172	none	*1.4*
B	C	Founders Growth Fund/Founders	13.4	11.8	0.7	113	42	none	*1.2*
A	D	Founders Special Fund/Founders	10.7	9.4	2.1	71	–14	none	1.0
C	C	FPA Capital Fund/Angeles Secs	12.2	13.4	1.6	81	10	6.50	1.1
C	A	FPA Paramount Fund/Angeles Secs	17.1	10.9	3.1	220	8	†	0.9
		FPA Perennial Fund/Angeles Secs	—*	14.0	4.0	59	13	6.50	1.1
B	D	Franklin DynaTech Fund/Franklin	11.1	27.3	0.7	45	34	4.00	0.8
[illegible]	D	Franklin Equity Fund/Franklin	12.4	7.6	4.1	404	6	4.00	0.6
B	B	Franklin Growth Fund/Franklin	15.3	18.1	1.7	185	60	4.00	0.7
		Franklin Managed—Rising Divs/Franklin	—*	7.0	3.1	41	9	4.00	*1.7*
D	[illegible]	Franklin Option Fund/Franklin	10.4	4.4	3.7	41	–11	4.00	0.8

•Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. †Closed to new investors. ‡Exchange fund, not currently sell new shares. §Distributor may impose redemption fee whose proceeds revert to the fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 p exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of partial absorption of expenses by fund spons NA: Not applicable or not available. [1]Reflects performance of Retirement Growth Fund prior to March 1989 merger. [2]Formerly Federated High Quality S Fund. [3]Formerly Federated Utility Trust Fund.

Distributor table, page 248. Rules, page 176.

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Annual Fund Ratings

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Ann expen per $
		Standard & Poor's 500 stock average	14.9%	16.4%	3.2%				
		Forbes stock fund composite	12.1%	12.3%	2.7%				$1.4
		Franklin Special Equity Income/Franklin	—*	7.4%	5.7%	$10	134%	4.00%	$0.0
F	A+	Franklin Utilities Fund/Franklin	16.9%	10.0	7.2	775	25	4.00	0.6
		Freedom Inv–Equity Value/Freedom	—*	5.8	1.7	22	2	3.00b	*2.1*
		Freedom Inv–Gold & Govt/Freedom	—*	6.7	7.2	69	8	3.00b	*1.8*
		Freedom Inv–Regional Bank/Freedom	—*	–0.9	1.6	62	–11	3.00b	*1.9*
		Fund Alabama/closed-end	—*	0.0	4.1	7	–4	NA	1.9
C	B	Fund of America/American Cap	13.0	8.1	2.5	166	–7	5.75	*0.8*
C	D	Fund of the Southwest/Capstone	8.6	12.8	1.2	16	6	4.75	1.4
A	B	Fundamental Investors/American Funds	16.9	15.5	3.7	835	19	5.75	*0.6*
		FundTrust–Aggressive Growth/Signature	—*	11.3	0.5	21	–1	1.50	*1.9*
		FundTrust–Growth/Signature	—*	5.3	1.3	22	–33	1.50	*1.9*
		FundTrust–Managed Total Ret/Signature	—*	6.1	6.2	19	23	1.50	*1.9*
		Gabelli Asset Fund/Gabelli	—*	0.2	3.3	381	43	none§	*1.26*
		Gabelli Equity Trust/closed-end	—*	–3.8	2.8	526	–13	NA	1.18
		Gabelli Growth Fund/Gabelli	—*	17.5	1.0	199	365	none	*1.85*
		Gateway Growth Plus Fund/Gateway	—*	19.3	2.4	12	73	none	1.50
D	A	Gateway Index Plus[1]/Gateway	10.4	18.2	2.4	49	77	none	1.25
		General Aggressive Growth/Dreyfus	—*	17.9	1.3	49	26	none	*1.18*
A	D	General American Investors/closed-end	14.4	37.2	0.8	444	30	NA	1.04
D	B	General Securities/Craig-Hallum	12.6	12.6	3.9	20	6	5.00	1.39
		Gintel Capital Appreciation Fund/Gintel	—*	12.8	7.0	34	7	none	*1.80*
D	•A	Gintel Erisa Fund/Gintel	—*	12.2	7.7	89	3	none	*1.30*
C	•B	Gintel Fund/Gintel	—*	16.6	7.6	94	4	none	1.40
•B	•F	GIT Equity Trust–Special Growth/GIT	—*	8.0	2.1	43	120	none	1.47
		Gradison Established Growth/Gradison	—*	3.4	3.6	139	31	none	*1.40*
		Gradison Opportunity Growth/Gradison	—*	7.2	2.5	26	28	none	*1.52*
		Greenspring Fund/Greenspring	—*	5.1	5.7	24	–4	none	1.27
B	B	Growth Fund of America/American Funds	15.0	12.3	2.9	2,181	49	5.75	*0.78*
		Growth Fund of Washington/Washington	—*	–4.7	2.3	52	–11	5.00	*1.66*
C	C	Growth Industry Shares/Growth Industry	12.2	21.2	1.1	71	11	none	0.88
		Growth Stock Outlook Trust/closed-end	—*	9.6	5.5	128	2	NA	1.43
		GT Global Growth-America/GT Global	—*	37.1	0.7	68	NM	4.75	*1.90p*
A	B	Guardian Park Ave Fund/Guardian	17.0	6.1	4.6	253	24	4,50	0.68
		Hampton Utils–Capital Shares/closed-end	—*	6.8	3.9	12	6	NA	1.45
B	D	John Hancock Growth Trust/Hancock	10.5	15.4	1.8	126	11	4.50	*1.43*
		John Hancock Special Equities/Hancock	—*	15.3	0.3	12	–6	4.50	*2.53p*

•Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. §Distributor may impose redemption fee whose proceeds revert to the fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that revert to distributor. p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or not available. NM: Not meaningful [1]Formerly Gateway Option Ind Fund.

Distributor table, page 248. Rules, page 176.

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Annual expenses per $100
		Standard & Poor's 500 stock average	**14.9%**	**16.4%**	**3.2%**				
		Forbes stock fund composite	**12.1%**	**12.3%**	**2.7%**				**$1.44**
		H&Q Healthcare Investors/closed-end	—*	44.5%	none	$71	41%	NA	$1.74
		Harbor Capital Appreciation[1]/HCA Securities	—*	19.8	1.5%	70	24	none	0.90
		Harbor Growth Fund/HCA Securities	—*	11.4	0.8	164	20	none	1.01
		Harbor Value/HCA Securities	—*	11.1	4.2	29	48	none	0.97p
A+	F	**Hartwell Emerging Growth/Hartwell**	10.4%	34.2	none	29	23	4.75%	*2.50*
A+	D	**Hartwell Growth Fund/Hartwell**	11.9	8.9	none	18	3	4.75	*3.00*
		Heartland Group–Value Fund/Dain Bosworth	—*	2.8	0.9	27	–18	4.50	*1.70*
		Heritage Capital Appreciation/Heritage	—*	–3.6	1.6	66	17	4.00	*2.00p*
		HT Insight–Convertible Fund/TBC	—*	–6.3	8.9	14	–32	4.50	*0.78p*
		HT Insight–Equity Fund/TBC	—*	11.7	4.1	21	42	4.50	*1.00p*
		Wayne Hummer Growth Fund/Hummer	—*	18.4	1.8	27	20	none	1.50p
		IAI Apollo/IAI Funds	—*	13.1	1.2	24	–17	none	1.00p
A	B	**IAI Regional Fund/IAI Funds**	16.8	23.4	2.2	191	82	none	1.00
C	B	**IAI Stock Fund/IAI Funds**	14.9	18.0	2.7	80	12	none	1.00p
		IDEX Fund/Idex	—*	25.7	0.6	93	17	8.50	1.34
		IDEX II/Idex	—*	27.6	0.5	92	19	†	1.32
		IDEX Fund 3/Idex	—*	26.4	0.5	163	115	†	1.25
B	•D	**IDS Discovery Fund/IDS**	—*	30.5	1.5	172	10	5.00	0.66
B	C	**IDS Equity Plus/IDS**	13.3	20.3	3.2	403	8	5.00	0.57
A+	D	**IDS Growth Fund/IDS**	14.4	31.1	1.1	788	17	5.00	0.64
		IDS Managed Retirement Fund/IDS	—*	26.6	2.6	796	17	5.00	0.92
A	B	**IDS New Dimensions Fund/IDS**	16.8	27.6	1.7	916	32	5.00	0.82
D	B	**IDS Progressive Fund/IDS**	12.5	–0.7	5.7	157	–15	5.00	0.75
C	B	**IDS Stock Fund/IDS**	13.1	18.0	5.3	1,372	6	5.00	0.60
		IDS Strategy–Aggressive Equity/IDS	—*	24.2	none	318	18	5.00b	*1.49*
		IDS Strategy–Equity/IDS	—*	8.4	4.7	335	27	5.00b	*1.61*
		IDS Utilities Income/IDS	—*	10.1	6.6	197	174	5.00	0.92
B	A	**Investment Co of America/American Funds**	16.7	15.0	3.8	5,874	22	5.75	*0.52*
		Investment Port–Equity/Kemper	—*	21.4	0.9	339	27	5.00b	*2.19*
		Investment Series–Hi Quality Stock[2]/Federated	—*	5.9	3.6	6	80	5.75	1.19p
C	D	**Inv Tr of Boston Grow Opp/Inv Trust**	8.8	14.3	3.0	62	0	4.25	*1.15*
B	D	**Investors Research Fund/Diversified**	11.5	14.4	1.6	67	–2	8.50	0.84
C	A	**Ivy Growth Fund/Ivy**	16.5	14.2	2.7	203	10	none	1.33
		Ivy Growth with Income Fund/Ivy	—*	13.0	12.3	15	–51	none	1.36
B	A	**Janus Fund/Janus**	17.4	23.5	1.2	1,246	152	none	1.00
		Janus Twenty Fund/Janus	—*	35.0	0.1	206	768	none	1.32p

und rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. †Closed to new investors. *Expense ratio is in italics if the fund has hareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force* b: Includes back-end load that reverts to distributor. p: Net of partial absorption of penses by fund sponsor. NA: Not applicable or not available. [1]Formerly Harbor US Equities. [2]Formerly Aetna High Quality Stock.

Distributor table, page 248. Rules, page 176.

Annual Fund Ratings

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Annu expen per $1
		Standard & Poor's 500 stock average	14.9%	16.4%	3.2%				
		Forbes stock fund composite	12.1%	12.3%	2.7%				$1.44
		Janus Venture Fund/Janus	—*	21.6%	1.1%	$232	375%	none	$1.23
D	B	JP Growth Fund/Jefferson-Pilot	13.9%	22.4	2.5	28	13	6.75%	0.90
		Kaufmann Fund/Kaufmann	—*	29.6	none	53	68	none§	*2.36p*
		Kemper Blue Chip Fund/Kemper	—*	22.7	1.2	34	52	4.50	*1.91*
		Kemper Gold Fund/Kemper	—*	–2.9	0.5	8	105	4.50	*2.35p*
A	D	Kemper Growth Fund/Kemper	12.7	23.9	1.7	373	25	5.75	0.81
A	D	Kemper Summit Fund/Kemper	11.8	14.8	2.4	270	9	5.75	0.81
B	D	Kemper Technology Fund/Kemper	10.3	27.7	2.5	591	16	5.75	0.67
		Keystone America Equity Income/Keystone	—*	11.6	3.7	24	12	4.00b	*2.00p*
		Keystone America Fund of Grow Stk/Keystone	—*	18.7	0.2	7	25	4.00b	*2.00p*
A	D	Keystone America Omega/Keystone	10.0	25.1	1.1	43	19	4.00b	*1.84*
B	D	Keystone Custodian K-2/Keystone	11.1	14.0	2.3	323	–3	4.00b	*1.67*
C	C	Keystone Custodian S-1/Keystone	10.6	15.3	2.9	186	5	4.00b	*2.25*
B	D	Keystone Custodian S-3/Keystone	11.2	8.4	2.8	264	6	4.00b	*1.66*
A	F	Keystone Custodian S-4/Keystone	6.3	18.5	0.8	567	19	4.00b	*1.27*
		Kidder, Peabody Equity Income/Kidder	—*	17.0	2.5	66	20	4.00	*1.81*
		Kidder, Peabody Special Growth/Kidder	—*	15.2	none	17	6	4.00	*2.33*
		Kidder, Peabody MarketGuard I/Kidder	—*	5.7	2.8	23	–2	4.00[1]	1.52
		Landmark Capital Growth Fund/Landmark	—*	7.1	0.1	8	–10	none	*3.79*
		Landmark Growth & Income/Landmark	—*	1.8	4.0	9	–16	none	*3.41*
		Laurel Funds–Stock/Frank Russell	—*	21.4	2.0	10	336	none	*0.68p*
		Legg Mason Special Investment/Legg Mason	—*	10.9	0.5	79	44	none	*2.24p*
		Legg Mason Total Return Trust/Legg Mason	—*	–0.9	1.7	25	–15	none	*2.41*
•B	•B	Legg Mason Value Trust/Legg Mason	—*	4.7	2.4	827	8	none	*1.87p*
D	C	Lepercq-Istel Fund/Lepercq	5.7	5.1	4.6	21	–3	none	*1.48*
B	B	Lexington Corp Leaders Trust/Lexington	15.3	14.1	4.0	92	9	4.00	0.72
D	•B	Lexington Goldfund/Lexington	—*	1.7	1.0	121	32	none	1.42
B	D	Lexington Growth Fund/Lexington	7.9	12.1	1.9	28	0	none	1.36
C	C	Lexington Research Fund/Lexington	12.2	9.0	3.8	121	–1	none	1.02
		Lexington Technical Strategy/Lexington	—*	11.4	1.9	10	61	5.00	1.34p
		Liberty All-Star Equity Fund/closed-end	—*	18.3	9.9	522	7	NA	1.25
		Liberty Utility Fund[2]/Federated	—*	9.3	7.8	65	39	4.50	1.02p
		Lindner Dividend Fund/Lindner	—*	1.6	10.1	153	27	none§	0.87
D	A+	Lindner Fund/Lindner	18.8	7.9	4.7	716	34	none§	0.62
		LMH Fund/Heine Mgmt	—*	–4.1	4.0	27	–29	none	1.81
C	D	Lord Abbett Developing Growth/Lord Abbett	7.5	22.7	none	140	0	6.75	*1.13*

•Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. §Distributor may impose redemption fee whose proceeds revert to the fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or not available. [1]Fund shares offered only in June and December. [2]Formerly Progressive Income Equity Fund

Distributor table, page 248. Rules, page 176.

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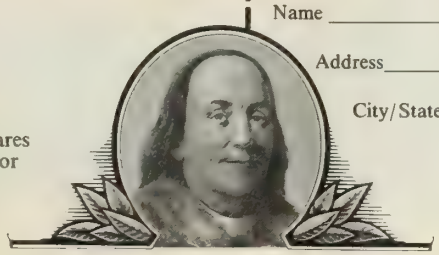

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Annual Fund Ratings

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Annu expen per $1
		Standard & Poor's 500 stock average	14.9%	16.4%	3.2%				
		Forbes stock fund composite	12.1%	12.3%	2.7%				$1.44
		Lord Abbett Fundamental Value/Lord Abbett	—*	15.4%	1.7%	$21	10%	7.25%	*$1.81*
•B	•C	Lord Abbett Value Appreciation/Lord Abbett	—*	8.7	2.9	176	–12	6.75	*0.94*
D	A	Lutheran Brotherhood Fund/Lutheran	15.1%	15.6	1.9	313	12	5.00	1.04
		Mackenzie American Fund/Mackenzie	—*	5.0	1.6	54	23	8.50	2.39
		Main Street–Income & Growth/Oppenheimer	—*	9.0	1.5	14	969	4.75	*2.21*
		MainStay–Capital Apprec[1]/NYLife	—*	17.4	0.2	41	27	5.00b	*2.54*
		MainStay–Gold & Precious[2]/NYLife	—*	2.2	none	7	12	5.00b	*3.47*
		MainStay–Value Fund[3]/NYLife	—*	6.4	1.6	33	46	5.00b	*2.63*
B	C	Mairs & Power Growth Fund/Mairs & Power	13.3	21.4	1.5	24	12	none	1.07
D	A+	Mairs & Power Income Fund/Mairs & Power	13.9	8.8	4.7	8	12	none	1.22
B	C	Horace Mann Growth Fund/Mann	12.4	15.6	3.3	105	13	†	0.64
B	C	Mass Capital Development Fund/Mass Finl	12.1	10.3	3.4	779	–2	7.25	0.77
B	D	Mass Financial Development/Mass Finl	11.8	12.7	3.4	240	2	7.25	0.83
A	•D	Mass Financial Emerging Growth/Mass Finl	—*	14.5	none	210	–3	7.25	1.43
•B	•D	Mass Financial Special Fund/Mass Finl	—*	6.4	4.0	125	2	4.75	*1.11*
B	C	Mass Investors Growth Stock/Mass Finl	12.1	18.3	0.7	925	7	7.25	0.54
B	C	Mass Investors Trust/Mass Finl	13.7	22.6	3.3	1,416	11	7.25	0.50
		MassMutual Integrity–Cap App/MML	—*	6.0	2.2	18	40	4.50	*1.30p*
		MassMutual Integrity–Value Stock/MML	—*	12.1	3.2	41	24	4.50	*1.23p*
C	C	Mathers Fund/Mathers	11.6	10.5	6.3	244	11	none	1.01
F	A	Meeschaert Capital Accum/Meeschaert	8.9	14.4	9.4	22	–42	4.00b	*0.84*
		Meeschaert Gold and Currency/closed-end	—*	–0.7	none	35	1	none	1.17
		The Merger Fund/Westchester	—*	2.7	0.4	11	8	none	*2.80*
		Meridian Fund/Meridian	—*	19.5	2.7	11	16	none	2.07p
C	B	Merrill Lynch Basic Value#/ML Funds	15.6	1.9	4.5	2,478	35	6.50	0.56
C	A	Merrill Lynch Capital Fund#/ML Funds	16.3	11.9	5.8	1,390	64	6.50	0.60
		Merrill Lynch Fund Tomorrow#/ML Funds	—*	0.9	2.5	527	–10	6.50	0.89
		Merrill Lynch Natural Res#/ML Funds	—*	18.5	2.5	409	–14	6.50	0.86
		Merrill Lynch Retire Equity#/ML Funds	—*	17.6	1.6	573	19	6.50	0.91
D	D	Merrill Lynch Special Value#/ML Funds	4.1	–6.3	2.0	57	–33	6.50	1.45p
		Merrill Lynch Strategic Div#/ML Funds	—*	9.0	5.3	385	41	6.50	1.04
		Merriman Timed Blue Chip/Merriman	—*	6.7	3.9	14	120	none	1.81p
		Merriman Timed Cap Apprec/Merriman	—*	4.5	4.6	18	517	none	1.53p
		MetLife-State Street Cap Apprec/MetLife	—*	17.3	0.3	59	74	4.50	*1.50p*
		MetLife-State Street Equity Inc/MetLife	—*	11.2	5.3	50	24	4.50	*1.50p*
		MetLife-State Street Equity Inv/MetLife	—*	16.5	2.4	36	48	4.50	*1.50p*

•Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. †Closed to new investors. #Fund has two share classes, one with 12b-1 fee and back-end load and the other with front-end load only. Results shown are for front-loaded shares. Assets are for entire fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of partial absorption of expenses by fund sponsor. [1]Formerly Mackay-Shields MainStay–Capital Appreciation. [2]Formerly Mackay-Shields MainStay–Gold & Precious Metals Fund. [3]Formerly Mackay-Shields MainStay–Value Funds.

Distributor table, page 248. Rules, page 176.

'erformance in UP —markets—	in DOWN	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Annual expenses per $100
		Standard & Poor's 500 stock average	**14.9%**	**16.4%**	**3.2%**				
		Forbes stock fund composite	**12.1%**	**12.3%**	**2.7%**				**$1.44**
		MFS Lifetime Capital Growth/Mass Finl	—*	15.1%	1.6%	$237	37%	6.00%b	*$2.46*
		MFS Lifetime Emerging Growth/Mass Finl	—*	30.0	none	100	38	6.00b	*2.81*
		MFS Lifetime Managed Sectors/Mass Finl	—*	12.3	none	194	21	6.00b	*2.52*
		MFS Lifetime Total Return[1]/Mass Finl	—*	5.1	5.0	215	25	6.00b	*2.43*
		MFS Managed Sectors Trust/Mass Finl	—*	12.9	0.6	125	0	4.75	*1.50*
D	B	**MidAmerica High Growth Fund/MidAmerica**	10.7%	3.0	4.7	12	–4	5.75	1.00
D	A	**MidAmerica Mutual Fund/MidAmerica**	12.9	8.9	4.1	37	5	5.75	1.00
		Midwest Strategic–Growth/MGF	—*	11.3	1.5	9	–11	4.75	*1.98*
		MIM Stock Conv & Option Grow/Mathematical	—*	0.2	3.1	7	10	none	*2.75*
		MIM Stock Conv & Option Inc/Mathematical	—*	4.4	4.1	12	–6	none	*2.57*
		Mimlic Investors Fund I/Mimlic	—*	16.2	2.2	13	26	5.00	1.23p
		Monitrend Value Fund/Pallas	—*	–1.2	2.1	6	–54	3.50	*2.50p*
		Morgan Grenfell SmallCap Fund/closed-end	—*	21.2	none	60	20	NA	2.13
		Morgan Keegan Southern Cap/Morgan Keegan	—*	3.7	4.1	9	–4	3.00	*2.00p*
A	B	**Mutual Benefit Fund/Mutual Benefit**	17.0	7.3	2.3	38	24	4.75	1.45
A	C	**Mutual of Omaha Growth/Mutual of Omaha**	13.7	35.2	0.8	61	43	4.75	*1.11*
D	B	**Mutual Series–Beacon/Heine Secs**	11.5	4.1	4.4	457	37	none	0.70
D	A+	**Mutual Series–Mutual Shares/Heine Secs**	16.6	1.2	6.8	3,110	–9	†	0.65p
D	A+	**Mutual Series–Qualified/Heine Secs**	18.5	0.7	6.1	1,340	–10	†	0.70p
C	F	**National Aggressive Grow[2]/National Secs**	5.7	2.2	1.3	70	108	7.25	1.33p
B	D	**National Aviation & Technology/AFA**	11.0	12.5	1.4	84	–3	4.75	1.28
D	C	**National Industries Fund/Stonebridge**	6.4	20.4	1.5	33	10	none	1.69
		National Real Estate–Stock/National Secs	—*	–9.3	7.3	19	–23	5.75	*1.64*
D	B	**National Stock Fund/National Secs**	12.0	10.2	3.3	226	–3	5.75	*1.09*
•D	•D	**National Telecom & Technology/AFA**	—*	11.2	0.3	39	–8	4.75	1.90
B	B	**Nationwide Fund/Nationwide**	15.6	17.4	3.0	507	17	7.50	0.63
C	B	**Nationwide Growth Fund/Nationwide**	15.7	2.3	3.2	245	–4	7.50	0.68
D	•D	**Nautilus Fund/Eaton Vance**	—*	27.1	none	14	6	4.75	2.50
		Neuberger & Berman Genesis/Neuberger	—*	0.8	0.3	22	36	none§	2.00p
B	C	**Neuberger & Berman Guardian/Neuberger**	14.0	8.4	3.3	562	1	none	0.84
A	C	**Neuberger & Berman Manhattan/Neuberger**	15.2	11.2	1.7	429	12	none	1.10
D	A	**Neuberger & Berman Partners/Neuberger**	15.1	8.0	4.2	794	7	none	0.97
D	C	**Neuberger & Berman Sectors + Energy/Neuberger**	8.9	12.2	2.5	416	1	none	0.99
A	D	**Neuwirth Fund/National Finl**	8.4	–3.1	0.5	25	–13	none	1.84
•D	•C	**New Alternatives Fund/Accrued Eq**	—*	9.0	1.7	16	86	5.66	1.25
		New Economy Fund/American Funds	—*	9.7	2.6	921	14	5.75	*0.83*

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Distributor table, page 248. Rules, page 176.

Annual Fund Ratings

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Ann expen per $
		Standard & Poor's 500 stock average	14.9%	16.4%	3.2%				
		Forbes stock fund composite	12.1%	12.3%	2.7%				$1.44
D	A	New England Balanced/New England	11.9%	–0.1%	6.2%	$59	3%	6.50%	*$1.5*
A	B	New England Growth Fund/New England	18.5	23.4	1.4	640	27	6.50	*1.2*
C	A	New England Retirement Equity/New England	14.4	12.1	2.1	145	5	6.50	*1.2*
B	B	New Perspective Fund/American Funds	16.3	22.8	2.5	1,566	42	5.75	*0.7*
A	C	New York Venture Fund/Venture	16.5	15.8	3.9	350	17	4.75	*0.9*
B	D	Newton Growth Fund/Newton	10.7	9.5	3.7	35	4	none	1.27
C	D	Niagara Share Corp/closed-end	8.5	16.1	2.1	237	10	NA	1.08
		Nicholas Applegate Growth Eq/closed-end	—*	22.0	none	142	50	NA	1.14
C	A	Nicholas Fund/Nicholas	16.7	11.8	2.1	1,520	20	none	0.82
		Nicholas II/Nicholas	—*	8.2	1.5	427	8	none	0.72
		Nicholas Limited Edition/Nicholas	—*	14.2	1.1	72	59	none	1.12
		NA Security Trust–Growth[1]/Wood Logan	—*	2.4	4.5	26	–22	4.75	*2.79*
B	C	Northeast Investors Growth/Northeast Inv	12.2	20.4	0.9	27	23	none	1.77
		Oberweis Emerging Growth/Oberweis	—*	29.0	none	15	–2	4.00	*2.00*
D	B	Old Dominion Investors' Trust/Investors Sec	11.2	2.5	6.8	7	8	5.75	*1.54*
		Olympic Trust–Equity Income/Olympic	—*	–0.5	4.8	65	38	none	1.00
		Olympic Trust–Small Cap Fund/Olympic	—*	20.2	0.9	8	–1	none	1.00
		Olympus Equity Plus Fund/Furman Selz	—*	14.8	0.7	8	–11	4.25	*2.94*
		Olympus Premium Income/Furman Selz	—*	6.6	2.0	32	–34	4.25	*2.17*
		Oppenheimer Blue Chip Fund/Oppenheimer	—*	9.8	2.7	19	11	4.75	*1.51*
A	D	Oppenheimer Directors Fund/Oppenheimer	8.0	3.0	2.8	127	–13	8.50	1.33
		Oppenheimer Discovery[2]/Oppenheimer	—*	6.1	1.4	62	37	4.75	*1.49*
B	B	Oppenheimer Equity Income/Oppenheimer	16.2	9.0	5.4	1,329	30	8.50	0.79
C	D	Oppenheimer Fund/Oppenheimer	5.3	5.9	2.7	196	–6	8.50	1.04
•D	•F	Oppenheimer Gold & Spec Mins/Oppenheimer	—*	3.3	2.3	163	36	8.50	1.37
F	A+	Oppenheimer Premium Inc/Oppenheimer	12.9	4.6	4.1	243	–16	8.50	0.93
•C	•D	Oppenheimer Regency Fund/Oppenheimer	—*	11.7	2.6	126	–1	8.50	1.32
D	C	Oppenheimer Special Fund/Oppenheimer	9.3	12.9	3.4	551	2	8.50	0.92
A	•D	Oppenheimer Target Fund/Oppenheimer	—*	13.0	3.0	63	–11	4.75	1.32
A	D	Oppenheimer Time Fund/Oppenheimer	14.0	6.7	3.1	335	4	8.50	0.94
B	C	Oppenheimer Total Return/Oppenheimer	11.6	12.4	4.1	424	21	4.75	*0.97*
C	B	Over-the-Counter Securities Fund/Review	12.0	1.2	0.8	291	–11	4.50	*1.45*
		Pacific Horizon–Aggres Grow/Concord Finl	—*	27.9	none	99	9	4.50	*1.51p*
		PaineWebber Classic Grow & Inc/PaineWebber	—*	12.2	3.3	65	9	4.50	*1.40*
		PaineWebber Classic Growth/PaineWebber	—*	16.6	none	84	27	4.50	*2.01*
		PaineWebber Classic Region Finl[3]/closed-end	—*	–0.1	3.3	50	–48	NA	*1.33*

•Fund rated for two periods only, maximum allowable grade A. *Fund not in operation for full period. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or not available. [1]Formerly Hidden Strength Growth Fund. [2]Formerly Oppenheimer OTC Fund. [3]Formerly Regional Financial Shares Investment.

Distributor table, page 248. Rules, page 176.

'erformance in UP	in DOWN —markets—	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Annual expenses per $100
		Standard & Poor's 500 stock average	**14.9%**	**16.4%**	**3.2%**				
		Forbes stock fund composite	**12.1%**	**12.3%**	**2.7%**				**$1.44**
		PaineWebber Master Energy-Util/PaineWebber	—*	18.0%	0.9%	$45	130%	5.00%b	*$2.64*
		PaineWebber Master Growth/PaineWebber	—*	9.7	none	108	37	5.00b	*1.87*
		Paribas Trust–Quantus Equity/Paribas	—*	24.5	3.8	5	–32	4.00b	*2.36*
		Parkstone Equity/Winsbury	—*	19.1	2.3	248	38	4.50	1.11
		Parkstone High-Inc Equity/Winsbury	—*	14.3	4.4	96	45	4.50	1.15
		Parkstone Small Cap/Winsbury	—*	28.3	0.3	95	75	4.50	1.09
		Parnassus Fund/Parnassus	—*	–3.6	0.8	26	37	3.50	1.75
		Pasadena Growth Fund/Pasadena Growth	—*	21.5	4.7	52	90	5.50	2.30p
		Patriot Premium Dividend Fund/closed-end	—*	6.4	13.5	194	–4	NA	1.35
		PBHG Growth Fund/Capstone	—*	28.6	none	17	–18	4.75	1.32
C	B	**Penn Square Mutual Fund/Penn Square**	13.8%	13.0	3.7	212	4	4.75	*0.91*
B	B	**Pennsylvania Mutual Fund/Penn Mutual**	15.0	5.4	3.1	685	29	none§	0.94
		Perritt Capital Growth/Perritt	—*	0.8	1.6	5	0	none	2.50
D	D	**Petroleum & Resources Corp/closed-end**	6.2	18.5	3.9	319	3	NA	0.60
D	C	**Philadelphia Fund/Baxter**	9.4	–0.6	3.0	101	–9	none	*0.95*
B	•A	**Phoenix Growth Fund/Phoenix**	22.1	21.0	3.1	756	19	6.90	1.04
B	•B	**Phoenix Stock Fund/Phoenix**	—*	11.8	2.0	125	–4	6.90	1.10
D	•A	**Phoenix Total Return/Phoenix**	—*	12.6	3.9	31	–12	4.75	*1.50p*
		Pierpont Capital Appreciation/TBC	—*	17.0	2.2	49	22	none	1.00p
		Pierpont Equity Fund/TBC	—*	21.0	6.0	40	49	none	1.00p
C	C	**Pilgrim MagnaCap Fund[1]/Pilgrim**	11.3	13.7	1.6	224	9	4.75	*1.60*
		Pilgrim Regional Bankshares/closed-end	—*	–4.7	7.9	93	–13	NA	1.26
C	C	**Pine Street Fund/National Finl**	11.1	10.1	4.5	51	–3	none	1.21p
C	C	**Pioneer Fund/Pioneer**	11.1	6.6	3.1	1,570	1	8.50	0.75
B	C	**Pioneer II/Pioneer**	14.4	7.2	3.5	4,407	6	8.50	0.77
•C	•B	**Pioneer Three/Pioneer**	—*	4.7	2.9	707	–1	8.50	0.72
		Piper Jaffray Sector Performance/Piper	—*	32.2	2.9	11	–18	4.00	*1.30p*
		Piper Jaffray Value Fund/Piper	—*	26.0	1.3	52	104	4.00	*1.30p*
		T Rowe Price Capital Appreciation/Price	—*	8.3	4.1	163	33	none	1.25
		T Rowe Price Equity Income Fund/Price	—*	0.8	5.6	1,002	35	none	1.10
•C	•B	**T Rowe Price Growth & Income/Price**	—*	2.8	5.1	558	6	none	0.94
C	D	**T Rowe Price Growth Stock Fund/Price**	10.7	19.3	2.0	1,631	19	none	0.72
		T Rowe Price New America Growth/Price	—*	13.5	none	141	19	none	1.25
C	D	**T Rowe Price New Era Fund/Price**	9.3	9.6	2.6	783	2	none	0.82
B	D	**T Rowe Price New Horizons Fund/Price**	8.5	16.5	0.5	1,051	11	none	0.81
		T Rowe Price Science & Technology/Price	—*	39.4	0.5	86	411	none	1.25

ınd rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. §Distributor may impose redemption fee whose proceeds revert to fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts distributor. p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or not available. [1]Reflects performance of Pilgrim Fund prior to June 1985 rger.

Distributor table, page 248. Rules, page 176.

Annual Fund Ratings

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Annual expense per $10
		Standard & Poor's 500 stock average	14.9%	16.4%	3.2%				
		Forbes stock fund composite	12.1%	12.3%	2.7%				$1.44
		T Rowe Price Small-Cap Value Fund/Price	—*	9.8%	1.4%	$32	2%	none	$1.25p
		Primary Trend Fund/Primary Trend	—*	–1.4	2.7	39	–31	none	1.12
		Principal Preserv–Div Achievers/Ziegler	—*	9.6	2.1	12	3	4.50%	1.20p
		Principal Preserv–S&P 100 Plus/Ziegler	—*	17.1	2.2	22	14	4.50	1.30p
		Princor Aggressive Growth Fund/Princor	—*	9.7	1.4	11	42	5.00	*1.78*
D	A	Princor Capital Accumulation/Princor	14.8%	2.4	3.3	138	18	5.00	*1.11*
B	D	Princor Growth Fund/Princor	11.0	20.8	1.5	36	13	5.00	*1.11*
C	B	ProvidentMutual Grow[1]/Provident	13.9	5.1	4.5	154	69	6.00	*1.25*
C	B	ProvidentMutual Invest Shrs[2]/Provident	14.7	12.2	5.8	227	124	6.00	*0.97*
B	D	ProvidentMutual Value Shrs/Provident	8.2	13.3	2.2	13	23	6.00	*2.18p*
B	•B	Pru-Bache Equity Fund#/Pru-Bache	—*	15.3	1.6	657	21	5.25	*1.02*
		Pru-Bache Equity Income#/Pru-Bache	—*	4.8	3.2	146	82	5.25	*2.16*
		Pru-Bache FlexiFund–Aggress#/Pru-Bache	—*	8.9	4.1	176	198	5.25	*1.64*
		Pru-Bache FlexiFund–Conserv#/Pru-Bache	—*	9.9	5.4	156	19	5.25	*1.29*
B	•D	Pru-Bache Growth Opp#/Pru-Bache	—*	7.6	1.3	134	–6	5.25	*1.37*
•C	•B	Pru-Bache Option Grow#/Pru-Bache	—*	8.6	3.0	61	–9	5.25	*1.90*
•B	•C	Pru-Bache Research Fund#/Pru-Bache	—*	8.7	2.4	325	–8	5.25	*1.49*
D	•A	Pru-Bache Utility Fund#/Pru-Bache	—*	9.3	4.8	2,493	17	5.25	*0.93*
		Prudent Speculator Leveraged/Prudent	—*	–7.8	none	8	–17	none	*4.26p*
D	F	Putnam Energy-Resources Trust/Putnam	1.6	16.9	3.1	127	13	5.75	*1.40*
C	B	Putnam Fund for Growth & Inc/Putnam	14.1	12.6	5.1	2,138	20	5.75	*0.72*
A	•D	Putnam Health Sciences Trust/Putnam	—*	38.6	1.2	348	43	5.75	*1.14*
		Putnam Information Sciences/Putnam	—*	16.3	0.5	103	2	5.75	*1.48*
B	C	Putnam Investors Fund/Putnam	12.0	20.9	3.2	719	12	5.75	*0.68*
D	B	Putnam Option Income Trust/Putnam	10.1	1.0	3.5	782	–22	6.75	*0.84*
		Putnam Option Income Trust II/Putnam	—*	5.1	4.7	930	–24	6.75	*0.82*
•A	•C	Putnam OTC Emerging Growth/Putnam	—*	18.7	none	206	23	5.75	*1.63*
A	B	Putnam Vista Basic Value/Putnam	15.7	10.5	2.8	263	2	5.75	*0.93*
A	D	Putnam Voyager Fund/Putnam	15.2	13.4	1.2	804	24	5.75	*1.00*
		Quest for Value Dual–Capital[3] Quest for Value Dual–Income	—*	16.6	5.3	538	9	none	0.83
C	A+	Quest for Value Fund/Quest	19.1	11.4	2.7	69	–10	5.50	*1.86*
		RCS Emerging Growth/Robertson	—*	46.7	none	19	129	none	*2.15*
		Real Estate Securities Income/closed-end	—*	–16.5	14.4	18	–26	NA	1.29
		Reich & Tang Equity Fund/Reich & Tang	—*	2.3	2.6	109	–2	none	1.10
		Reynolds Blue Chip Growth Fund/Fiduciary Mgmt	—*	25.3	1.2	10	171	none	2.50p

•Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. #Fund has two share classes, one with large 12b-1 fee and back-end load and the other with small 12b-1 fee and front-end load. Results shown are for front-loaded shares. Assets are for entire fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or not available. [1]Formerly Sigma Capital Shares. [2]Formerly Sigma Investment Shares. [3]Dual Fund. Performance, asset and expense data on capital and income shares treated as a unit.

Distributor table, page 248. Rules, page 176.

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Annual expenses per $100
		Standard & Poor's 500 stock average	**14.9%**	**16.4%**	**3.2%**				
		Forbes stock fund composite	**12.1%**	**12.3%**	**2.7%**				**$1.44**
		Rightime Fund/Lincoln Inv	—*	11.0%	1.0%	$149	–13%	none	*$2.55*
		Rightime Fund Blue Chip/Lincoln Inv	—*	14.9	1.7	123	47	4.75%	*$2.31*
		Rightime Fund Growth/Lincoln Inv	—*	2.0	0.8	46	46	4.75	*2.32*
F	•A	**Rochester Tax Managed Fund/Rochester**	—*	2.0	none	14	–7	8.50	*1.78*
		Rodney Square Multi–Grow/Rodney	—*	13.7	1.1	43	22	5.75	*1.75p*
		Rodney Square Multi–Value/Rodney	—*	6.2	2.9	8	–13	5.75	*1.75p*
•C	•B	**Royce Fund–Value/Quest Dist**	—*	3.8	2.1	191	–1	1.00b	*1.82*
		Royce Value Trust/closed-end	—*	5.1	1.6	140	8	NA	0.93
		RPF of America–Equity Fund/Venture	—*	18.4	3.4	30	51	5.00b	*2.58*
		Rushmore–OTC Index Plus/Rushmore	—*	2.9	0.3	11	–3	none	1.00
		Rushmore–Stock Mkt Index Plus/Rushmore	—*	16.0	2.0	52	245	none	0.95
B	C	**Safeco Equity Fund/Safeco**	12.8%	17.8	2.0	64	30	none	0.95
B	C	**Safeco Growth Fund/Safeco**	11.8	18.3	1.1	88	18	none	0.95
D	A	**Safeco Income Fund/Safeco**	14.6	2.9	5.5	207	–8	none	0.89
		St Clair Equity–Capital Growth/Fairfield	—*	21.2	0.8	20	302	none	1.62p
		Salem Funds–Growth/Federated	—*	12.1	4.2	105	21	none	*1.55*
A	B	**Salomon Brothers Capital[1]/Salomon**	15.3	12.8	0.3	74	4	5.00	1.48
C	B	**Salomon Brothers Fund[2]/closed-end**	12.9	11.5	3.9	1,021	5	NA	0.44
C	B	**Salomon Brothers Investors[3]/Salomon**	13.4	10.0	4.0	378	–3	5.00	0.63
C	B	**Salomon Brothers Opportunity[4]/Salomon**	15.4	–3.3	3.4	108	–2	none	1.26
		SBSF–Growth Fund/SBSF	—*	16.0	3.1	100	13	none	1.13
		Schafer Value Fund/Schafer	—*	13.6	1.8	11	–10	none	2.09
•C	•B	**Sci/Tech Holdings/ML Funds**	—*	24.4	0.7	156	–3	6.50	1.55p
A	C	**Scudder Cap Growth/Scudder**	14.7	0.3	0.8	996	20	none	0.93
C	D	**Scudder Development Fund/Scudder**	10.3	28.2	none	361	31	none	1.34
		Scudder Equity Income/Scudder	—*	4.9	5.7	21	21	none	1.51p
		Scudder Fund–Lazard Equity/Scudder	—*	8.1	1.7	18	15	none	*1.78*
		Scudder Gold Fund/Scudder	—*	–2.7	0.6	17	53	none	2.55p
C	C	**Scudder Growth & Income Fund/Scudder**	11.2	6.8	5.2	503	9	none	0.87
C	C	**Second Fiduciary Exchange Fund/‡**	11.5	16.4	1.9	68	6	NA	0.82
•C	•C	**Security Action Fund/Security**	—*	13.5	1.0	251	27	**	0.82
A	D	**Security Equity Fund/Security**	11.6	13.1	2.9	270	5	8.50	1.08
D	C	**Security Investment Fund/Security**	7.5	3.4	6.4	77	–8	8.50	1.26
		Security Omni Fund/Security	—*	4.6	none	18	–6	8.50	4.18
C	F	**Security Ultra Fund/Security**	6.3	14.4	none	58	–13	8.50	2.98
D	A	**Selected American Shares/Prescott**	15.4	2.3	3.5	412	18	none	*1.08*

• nd rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. ‡Exchange fund, not currently selling new shares. **Available through monthly contractual plan. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force* ncludes back-end load that reverts to distributor. p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or not available. [1]Formerly Lehman tal Fund. [2]Formerly Lehman Corp. [3]Formerly Lehman Investors Fund. [4]Formerly Lehman Opportunity Fund.

Distributor table, page 248. Rules, page 176.

Annual Fund Ratings

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Annu expen per $1
		Standard & Poor's 500 stock average	14.9%	16.4%	3.2%				
		Forbes stock fund composite	12.1%	12.3%	2.7%				$1.44
B	D	Selected Special Shares/Prescott	11.2%	14.5%	1.8%	$60	39%	none	*$1.22*
A+	D	Seligman Capital Fund/Seligman	13.4	27.1	none	133	10	4.75%	0.88
B	B	Seligman Common Stock Fund/Seligman	14.5	18.9	3.3	497	–1	4.75	0.65
		Seligman Commun & Inform/Seligman	—*	24.5	none	46	12	4.75	1.48
B	D	Seligman Growth Fund/Seligman	10.7	19.1	1.5	559	4	4.75	0.65
C	A	Sentinel Common Stock Fund/Equity	16.4	12.8	3.8	597	9	8.50	0.77
A	C	Sentinel Growth Fund/Equity	14.0	23.1	1.1	56	14	5.25	1.21
B	D	Sentry Fund/Sentry	10.9	19.9	2.8	52	15	8.00	0.65
D	A+	Sequoia Fund/Ruane	19.3	13.0	4.1	977	13	†	1.00
		Shadow Stock Fund/Jones & Babson	—*	–1.7	1.5	25	–5	none	1.33
D	F	Sherman, Dean Fund/Sherman	–0.1	4.4	none	3	6	none	2.24
•A	•C	Sit New Beginning Growth Fund/Sit	—*	21.0	1.0	74	36	none	1.12
•B	•B	Sit New Beginning Income & Growth/Sit	—*	17.1	2.4	18	29	none	1.50
		Skyline Fund–Special Equities/Mesirow	—*	14.8	1.0	26	50	3.85	*1.60*
		SLH Aggressive Growth/Shearson	—*	24.8	0.1	107	24	5.00	1.17
B	B	SLH Appreciation Fund/Shearson	15.9	17.6	2.7	1,121	55	5.00	0.89
		SLH Equity–Growth & Opp/Shearson	—*	–3.7	2.7	183	–5	5.00b	*2.15*
		SLH Equity–Sector Analysis/Shearson	—*	10.3	2.7	213	–37	5.00b	*2.17*
		SLH Equity–Strategic Inv/Shearson	—*	8.2	3.5	218	22	5.00b	*2.32*
D	•B	SLH Fundamental Value Fund/Shearson	—*	10.8	2.8	82	–4	5.00	1.15
		SLH Income–Option Inc/Shearson	—*	10.2	9.5	522	–10	5.00b	*1.79*
		SLH Investment–Directions Val/Shearson	—*	13.0	2.0	307	–8	5.00b	*1.96*
C	•C	SLH Investment–Growth/Shearson	—*	12.3	5.3	856	–8	5.00b	*1.90*
		SLH Investment–Prec Metals/Shearson	—*	–3.4	0.4	69	–16	5.00b	*2.45*
•C	•D	SLH Investment–Spec Equities/Shearson	—*	8.6	3.7	120	–23	5.00b	*2.40*
		SLH Multi Opportunity LP/Shearson	—*	7.4	8.0	202	–22	3.00b	*3.00p*
		SLH Principal Ret–Zero & Apprec/Shearson	—*	12.6	5.7	138	–25	5.00	0.85
		SLH Small Capitalization/Shearson	—*	20.0	none	33	28	5.00	1.50p
		SLH Telecom–Growth/Shearson	—*	1.8	1.9	39	6	5.00	1.24
		SLH Telecom–Income/‡	—*	13.5	4.3	95	0	†	0.92
C	C	Smith Barney Equity Fund/Smith Barney	12.0	17.8	2.7	83	5	5.75	*0.79*
D	A	Smith Barney–Income & Growth/Smith Barney	16.0	7.6	5.8	586	4	5.75	0.44
C	A+	SoGen International Fund/Sogen	17.5	12.5	3.9	195	43	3.75	*1.38*
		Sound Shore Fund/Sound	—*	5.5	2.8	38	7	none	1.24
D	A+	Source Capital/closed-end	16.7	9.4	7.3	311	0	NA	0.96
		Southeastern Growth Fund/Wheat First	—*	3.8	1.2	106	4	5.00b	*2.24*

•Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. †Closed to new investors. ‡Exchange fund, not currently selling new shares. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or not available.

Distributor table, page 248. Rules, page 176.

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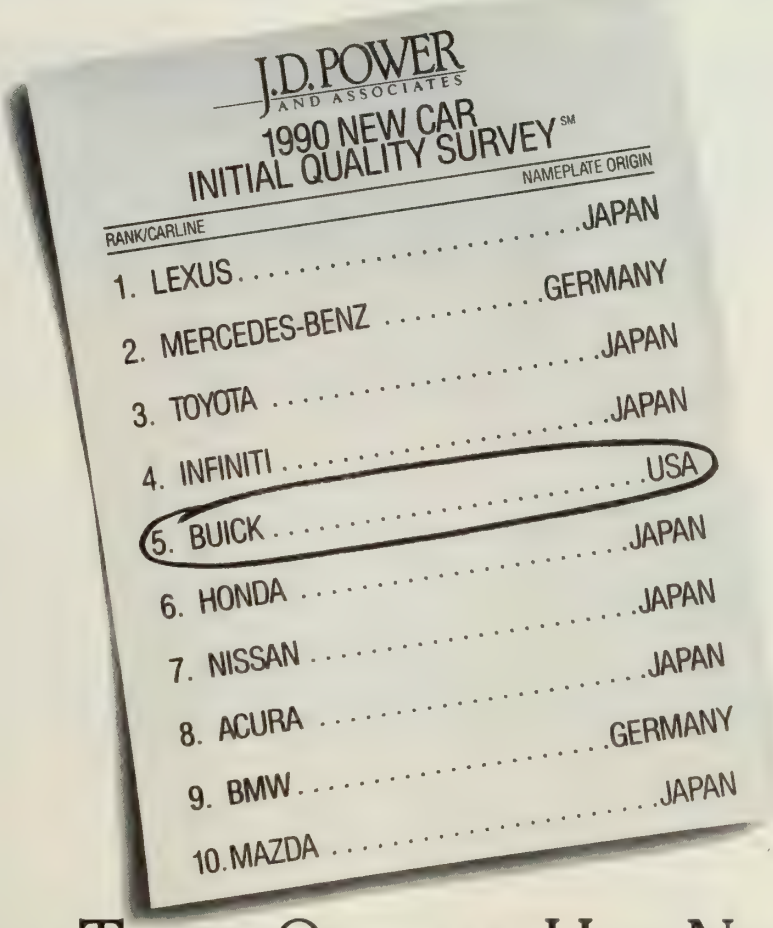

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Annual Fund Ratings

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Annual expense per $1
		Standard & Poor's 500 stock average	14.9%	16.4%	3.2%				
		Forbes stock fund composite	12.1%	12.3%	2.7%				$1.44
		SAM Small-Cap/Southeastern	—*	2.6%	2.0%	$65	96%	none	$1.50
		SAM Value Trust/Southeastern	—*	2.5	1.8	148	34	none	1.35
D	A	Sovereign Investors/Sovereign	15.4%	16.5	4.7	80	53	5.00%	*1.07*
A	D	Spectra Fund/closed-end	13.0	24.5	none	5	23	NA	3.55
B	D	State Bond Common Stock Fund/State Bond	11.2	26.3	1.8	39	22	4.75	*1.06*
C	B	State Bond Diversified Fund/State Bond	13.1	12.4	4.2	24	18	4.75	*0.97*
B	D	State Bond Progress Fund/State Bond	10.7	25.4	0.9	9	20	4.75	*1.31*
A	C	State Street Exchange Fund/‡	14.4	19.1	2.2	199	11	none	0.62
B	C	State Street Growth Fund/‡	14.5	22.8	2.3	289	12	none§	0.54
B	C	State Street Investment Trust/MetLife	13.1	23.0	2.8	586	8	4.50	0.50
F	D	Steadman American Industry/Steadman	–6.1	–5.4	none	4	–3	†	7.00
F	C	Steadman Associated/Steadman	5.1	9.6	none	12	–19	†	4.10
F	D	Steadman Investment Fund/Steadman	–1.1	–0.7	none	5	–10	†	4.32
F	F	Steadman Oceanographic Tech & Gr/Steadman	–6.9	7.5	none	3	4	†	6.34
A	F	SteinRoe Capital Opportunities/Stein Roe	6.4	7.3	0.5	160	–15	none	1.10
A	C	SteinRoe Special Fund/Stein Roe	16.3	20.7	2.0	451	59	none	0.97
A	D	SteinRoe Stock Fund/Stein Roe	10.1	28.9	1.7	243	27	none	0.74
F	•C	Strategic Gold/Minerals Fund/Strategic	—*	–1.4	1.0	2	–30	8.50	1.50
		Strategic Silver Fund/Strategic	—*	18.6	none	22	–12	8.50	1.49
C	C	Stratton Growth Fund/Stratton	11.6	6.1	3.6	23	17	none	1.38
F	A+	Stratton Monthly Dividend Shares/Stratton	13.0	1.6	8.5	32	–5	none	1.25
		Strong Discovery Fund/Strong	—*	2.7	2.2	71	147	2.00	1.98
		Strong Opportunity Fund/Strong	—*	–3.2	4.0	178	–13	2.00	1.70
		SunAmerica Cap Apprec[3]/SunAmerica	—*	–3.2	1.3	180	–26	5.00b	*2.36*
		SunAmerica Equity–Aggress Grow[4]/SunAmerica	—*	–0.7	none	38	–26	4.75	*1.91*
		SunAmerica Equity–Grow[5]/SunAmerica	—*	14.9	0.7	40	–3	4.75	*1.78*
		SunAmerica Multi-Asset–Tot Ret[6]/SunAmerica	—*	5.6	2.4	33	–9	4.75	*2.08*
A	D	Surveyor Fund/Alliance	9.7	1.5	none	93	–12	5.50	*1.56*
		Templeton Value Fund/closed-end	—*	7.9	3.4	178	5	NA	1.35
C	B	Templeton World Fund/Templeton	15.6	9.1	3.5	4,581	6	8.50	0.69
		Thomson McKinnon–Growth/Thomson	—*	20.8	0.9	366	4	5.00b	*1.70*
		Thomson McKinnon–Oppor/Thomson	—*	15.7	none	44	–11	5.00b	*1.90*
		Thomson McKinnon–Prec Met/Thomson	—*	–5.5	none	8	19	5.00	*2.50*
		Tocqueville Fund/Freedom	—*	8.8	3.3	15	–13	none	*1.47p*
		Tower–Capital Apprec/Federated	—*	20.6	3.0	69	112	4.50	*0.56p*
		Transamerica Lowry Mkt Timing/Transamerica	—*	10.8	2.7	18	–16	4.75	*1.87p*
		Transamerica Special Blue Chip/Transamerica	—*	17.1	0.6	11	124	6.00b	*3.47p*

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Distributor table, page 248. Rules, page 176.

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Annual expenses per $100
		Standard & Poor's 500 stock average	14.9%	16.4%	3.2%				
		Forbes stock fund composite	12.1%	12.3%	2.7%				$1.44
		Transamerica Special Emerg Grow/Transamerica	—*	28.5%	none	$16	130%	6.00% b	*$3.48p*
		Transamerica Spec Natural Res/Transamerica	—*	16.4	0.0%	7	116	6.00b	*3.45p*
C	•C	Transamerica Sunbelt Growth/Transamerica	—*	13.4	6.1	31	–8	4.75	*1.85*
C	C	Transamerica Technology Fund[1]/Transamerica	11.0%	29.7	0.5	71	28	4.75	*1.83*
B	C	Tri-Continental Corp/closed-end	13.6	20.0	2.9	1,692	15	NA	0.55
		20th Century Giftrust Investors/20th Century	—*	30.8	none	33	76	none	1.00
A+	D	20th Century Growth Investors/20th Century	13.2	25.8	0.4	2,057	46	none	1.00
		20th Century Heritage Investors/20th Century	—*	19.1	0.8	221	177	none	1.00
A+	C	20th Century Select Investors/20th Century	16.6	25.4	2.9	3,299	34	none	1.00
A+	•F	20th Century Ultra Investors/20th Century	—*	16.6	2.1	397	17	none	1.00
		20th Century Vista Investors/20th Century	—*	34.1	none	494	117	none	1.00
•C	•B	UMB Stock Fund/Jones & Babson	—*	8.6	4.2	48	15	none	0.87
C	•C	Unified Growth Fund/Unified	—*	9.1	2.5	14	–19	none	1.18
D	B	Unified Mutual Shares/Unified	11.1	7.6	3.8	16	–11	none	1.11
C	B	United Accumulative Fund/Waddell	15.2	9.9	4.3	874	7	8.50	0.63
A	A	United Income Fund/Waddell	19.1	15.6	3.6	1,742	26	8.50	0.69
•D	•C	United New Concepts Fund/Waddell	—*	15.2	3.1	65	–16	8.50	1.27
C	C	United Science & Energy Fund/Waddell	12.0	17.8	1.8	264	15	8.50	0.84
F	•B	United Services–Good & Bad/United	—*	–0.5	3.1	10	–16	none	2.10
		United Services–Growth Fund/United	—*	9.5	1.2	5	4	none	2.40
		United Services–Income Fund/United	—*	8.9	3.4	8	47	none	1.94
B	C	US Trend Fund/Capstone	11.7	15.8	2.9	91	2	4.75	0.91
B	B	United Vanguard Fund/Waddell	15.6	11.3	3.6	814	10	8.50	0.96
		US Boston Inv–Growth & Inc/US Boston	—*	19.4	1.0	37	20	1.00b	*1.85*
		USAA Investment–Cornerstone/USAA	—*	6.6	3.8	570	14	none	1.23
		USAA Investment–Gold Fund/USAA	—*	–7.1	2.0	142	–11	none	1.44p
B	•D	USAA Mutual–Aggressive Growth/USAA	—*	10.6	1.1	158	9	none	0.96
C	D	USAA Mutual–Growth Fund/USAA	8.9	14.9	3.1	250	19	none	1.20
		USAA Mutual–Income Stock/USAA	—*	8.1	5.2	87	88	none	1.00p
		UST Master Funds–Equity/UST	—*	10.6	2.3	31	50	4.50	1.22
		UST Master Funds–Inc & Growth/UST	—*	–2.6	4.7	23	16	4.50	1.24
F	A+	Valley Forge Fund/Valley Forge	11.4	8.9	6.7	8	–1	none	1.35
		Value Line Convertible Fund/Value Line	—*	7.9	5.4	46	–23	none	1.05
C	C	Value Line Fund/Value Line	11.0	21.9	2.6	212	13	none	0.70
D	A	Value Line Income Fund/Value Line	12.6	10.6	7.1	144	7	none	0.75
C	B	Value Line Leveraged Growth Inv/Value Line	14.3	21.3	1.6	260	14	none	0.96
D	D	Value Line Special Situations/Value Line	5.0	8.7	1.5	119	–6	none	1.08

und rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. *Expense ratio is in italics if the fund has a shareholder paid 12b 1 in exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of partial absorption of expenses by fund onsor. NA: Not applicable or not available. [1]Reflects performance of Criterion Pilot prior to June 1989 merger.

Distributor table, page 248. Rules, page 176.

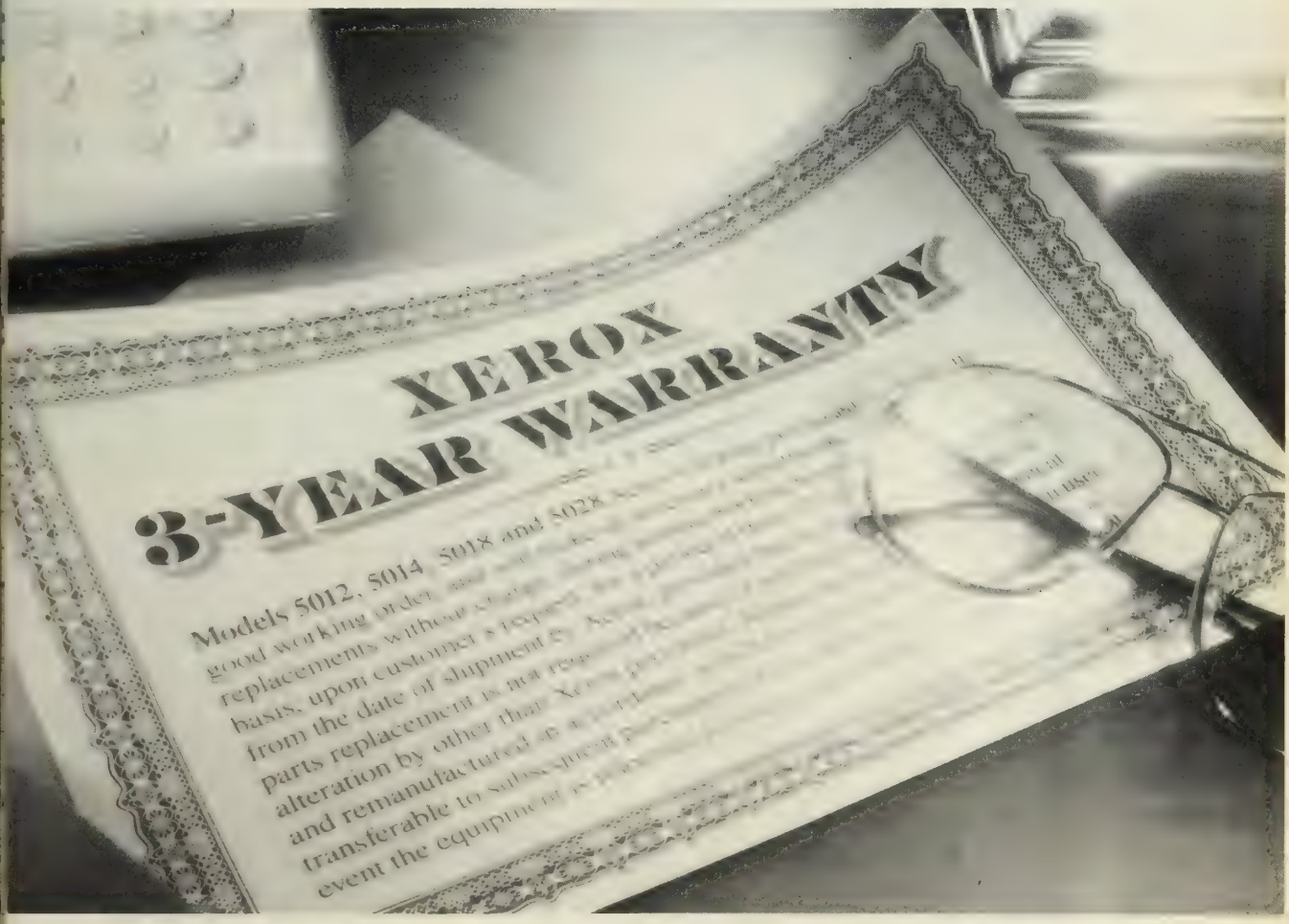
Annual Fund Ratings

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Ann expe per $
		Standard & Poor's 500 stock average	14.9%	16.4%	3.2%				
		Forbes stock fund composite	12.1%	12.3%	2.7%				$1.4
		Van Eck Gold/Resources Fund/Van Eck	—*	–4.8%	0.2%	$192	–14%	6.75%	*$1.4*
		Van Kampen Merritt Gr & Inc/Van Kampen	—*	4.4	3.5	26	–28	4.90	*1.5*
B	C	Vance, Sanders Exchange Fund/‡	13.0%	22.7	2.1	181	13	NA	0.7
D	C	Vance, Sanders Special Fund/Eaton Vance	6.5	15.7	0.4	57	3	4.75	*1.0*
		Vanguard Asset Allocation/Vanguard	—*	9.9	4.3	178	130	none	0.4
D	D	Vanguard Explorer Fund/Vanguard	7.7	5.8	1.2	290	1	none	0.6
		Vanguard Gemini II Capital[1] Vanguard Gemini II Income	—*	–3.7	6.5	281	–11	none	0.6
D	A+	Vanguard High Yield Stock/Vanguard	18.7	–11.6	11.0	110	–35	†	0.44
B	C	Vanguard Index–500 Portfolio/Vanguard	14.5	16.1	3.5	2,368	66	none[2]	0.20
		Vanguard Index–Extended Mkt/Vanguard	—*	4.3	1.8	185	97	none[3]	0.23
A	C	Vanguard/Morgan Growth/Vanguard	13.7	15.9	2.4	756	10	none	0.51
		Vanguard Primecap Fund/Vanguard	—*	17.5	1.1	310	25	none	0.74
		Vanguard Quantitative Portfolios/Vanguard	—*	16.2	3.2	204	33	none	0.53
B	D	Vanguard Small Cap[4]/Vanguard	7.5	0.9	1.2	47	78	none[2]	0.33
		Vanguard Special–Energy/Vanguard	—*	21.5	2.5	102	93	none§	0.38
		Vanguard Special–Health Care/Vanguard	—*	29.7	1.9	134	125	none§	0.39
		Vanguard Spec–Service Economy/Vanguard	—*	9.0	2.4	23	–11	none§	0.43
		Vanguard Special–Technology/Vanguard	—*	23.3	1.1	21	83	none§	0.48
C	B	Vanguard Trustees Comm–US/Vanguard	14.0	2.3	3.4	120	–11	none	0.51
B	A	Vanguard Windsor Fund/Vanguard	18.5	–1.0	5.8	7,935	1	†	0.38
		Vanguard Windsor II/Vanguard	—*	4.7	5.2	2,510	34	none	0.48
		Vanguard World–US Growth/Vanguard	—*	32.2	1.1	347	121	none	0.88
D	B	Variable Stock Fund/Variable	11.2	17.2	8.4	8	–10	none	1.53
		Viking Equity Index Fund–General/Fairfield	—*	13.9	2.1	12	24	none	1.52
		Voyageur Granit Growth Stock/Voyageur	—*	22.9	none	12	7	5.75	*2.31p*
B	D	Wall Street Fund/Wall Street	9.3	8.7	0.3	11	–15	5.50	1.93
B	A	Washington Mutual Investors/American Funds	17.8	8.9	4.3	5,349	54	5.75	*0.69*
		Weitz Series Fund–Value/Weitz Secs	—*	6.0	3.5	24	25	none	1.46
		Westwood Fund/Dreyfus	—*	10.1	4.0	56	4	4.00	1.27
D	D	Winthrop Focus Funds–Growth[5]/National Finl	8.2	14.5	2.2	52	–1	4.00b	*1.37*
		WPG Dividend Income Fund/Weiss	—*	3.1	6.7	9	1	none	1.97p
B	C	WPG Fund/Weiss	12.7	13.9	1.1	37	–1	none	1.51
A+	C	WPG Tudor Fund[6]/Weiss	16.5	18.7	0.6	203	9	none	1.12
		Zweig Fund/closed-end	—*	10.6	8.5	407	3	NA	1.31
		Zweig Series–Priority Selec[7]/Zweig/Glaser	—*	8.8	4.1	48	136	5.50	*1.35*
		Zweig Total Return/closed-end	—*	7.4	9.9	590	1	NA	1.14

*Fund not in operation for full period. †Closed to new investors. ‡Exchange fund, not currently selling new shares. §Distributor may impose redemption fee whose proceeds revert to the fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or not available. [1]Dual Fund. Performance, asset and expense data on capital and income shares treated as a unit. [2]Annual $10 maintenance fee. [3]Annual $10 maintenance fee and 1% transaction fee. [4]Formerly Vanguard Naess & Thomas Special Fund. [5]Reflects performance of deVegh Mutual Fund prior to May 1987 merger. [6]Formerly Tudor Fund. [7]Reflects performance of Zweig-Blue Chip Fund prior to 1990 merger.

Distributor table, page 248. Rules, page 176.

XEROX



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Balanced funds

Balanced funds either mix stocks with bonds or buy convertible bonds, hybrid securities that combine features of fixed-income investments with some equity-like appreciation potential. Balanced funds are graded separately from stock funds, but over the same market cycles (see chart, page 177). These funds are generally more conservative than stock funds: They hold up better in a crash, but in a strong market (such as we've had in the past 12 months) they underperfor stock funds. A handful of balanced funds get honor grades both bull and bear markets: American Balanced, Americ Capital Equity Income, Fidelity Puritan and Phoenix Co vertible. Starting on page 248 is a list of fund distributors a addresses. Closed-end funds have no distributor. They tra in the secondary market like shares of an industrial compan

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets 6/30/90 ($mil)	Assets % change '90 vs '89	Maximum sales charge	Annua expens per $10
		Standard & Poor's 500 stock average	14.9%	16.4%	3.2%				
		Forbes balanced fund composite	7.2%	13.3%	5.6%				$1.38
		Adtek Fund/Adtek	—*	2.4%	3.7%	$9	–28%	none	$2.07
		Advantage Income Fund/Advest	—*	7.3	6.3	52	–8	4.00%b	*2.04*
D	D	Aim Convertible Securities/AIM	7.2%	16.0	3.2	12	–10	4.75	*2.12*
C	B	Alliance Balanced Shares/Alliance	14.1	–1.9	3.5	158	11	5.50	*1.36*
		Alliance Convertible Fund/Alliance	—*	1.6	5.3	61	–19	5.50	*1.92*
B	B	American Balanced Fund/American Funds	14.7	7.9	6.0	310	24	5.75	*0.78*
B	C	American Capital Convert Secs/closed-end	14.5	4.4	7.0	72	–6	NA	0.84
B	B	American Capital Equity Income/American Cap	15.5	12.3	6.1	96	–3	5.75	*0.83*
A	D	American Capital Harbor Fund/American Cap	12.3	8.2	6.0	377	1	5.75	*0.76*
		AMEV Advantage–Asset Alloc/AMEV	—*	11.7	5.1	24	254	4.50	*1.97*
B	D	Axe-Houghton Fund B/Axe	12.1	9.7	6.7	161	–2	none	*1.15*
		Bailard Biehl & Kaiser Diversa/Bailard	—*	6.6	4.0	99	–2	none	1.29
D	D	Bancroft Convertible Fund/closed-end	9.1	6.0	6.8	54	0	NA	1.50
		Bascom Hill Balanced Fund/Madison	—*	–0.9	5.7	15	23	5.00b	*2.00p*
		Boston Co Inv–Asset Alloc/Boston Co	—*	11.6	3.3	19	156	none	*2.00*
		Bruce Fund/Bruce	—*	30.2	2.4	3	–3	none	1.83p
		Calamos Convertible Income/Calamos	—*	6.9	7.1	15	–30	none	1.10
•C	•D	Calvert Social Inv–Managed Grow/Calvert	—*	7.9	2.3	251	26	4.50	*1.29*
		Carillon Investment–Capital/Carillon	—*	9.2	5.6	15	–24	5.00	1.28
D	B	Castle Convertible Fund/closed-end	11.6	8.2	7.7	48	0	NA	1.20
A+	C	CGM Mutual Fund[1]/New England	16.2	14.3	4.0	323	10	none	0.97
		Colonial Advanced Strategies Gold/Colonial	—*	–5.4	0.2	60	–22	6.75	*1.91*
A	D	Colonial Fund/Colonial	13.7	6.8	4.3	334	12	6.75	*1.04*
C	C	Commonwealth Inv–Balanced/Trusteed	11.5	12.8	5.4	46	19	7.50	0.98
C	C	Composite Bond & Stock Fund/Murphey Favre	11.9	3.1	5.8	72	0	4.00	*1.24*

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Distributor table, page 248. Rules, page 176.

erformance in UP	in DOWN —markets—	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Annual expenses per $100
		Standard & Poor's 500 stock average	**14.9%**	**16.4%**	**3.2%**				
		Forbes balanced fund composite	**7.2%**	**13.3%**	**5.6%**				**$1.38**
		Conn Mutual–Total Return/Phelps	—*	12.2%	6.0%	$69	15%	6.25%	$1.20
		Convertible Holdings–Capital[1]/closed-end	—*	0.1	none	265	–1	NA	0.80
		Convertible Holdings–Income/closed-end							
		Convertible Securities & Income/Federated	—*	–3.4	9.8	29	83	4.50	*1.06p*
F	A	**Country Capital Income Fund/Country Cap**	11.3%	6.6	7.3	6	–2	3.00	1.39
		Dean Witter Convertible Secs/Dean Witter	—*	2.1	4.9	556	–33	5.00b	*1.85*
		Dean Witter Managed Assets/Dean Witter	—*	6.7	6.1	273	–2	5.00b	*1.77*
		Dean Witter Strategist/Dean Witter	—*	16.6	2.4	179	432	5.00b	*1.45*
		Delaware Group Delaware Fund/Delaware	—*	13.3	4.3	397	15	6.75	0.76
A	C	**Dodge & Cox Balanced Fund/Dodge & Cox**	14.3	12.9	4.8	62	37	none	0.72
B	D	**Dreyfus Convertible Securities/Dreyfus**	13.4	10.3	4.2	277	4	none	1.05
		Duff & Phelps Selected Utilities/closed-end	—*	8.2	9.3	1,142	0	NA	1.33
		Eaton Vance High Income Trust/Eaton Vance	—*	–6.3	15.3	229	–21	6.00b	*2.20*
D	A	**Eaton Vance Inc Fund of Boston/Eaton Vance**	11.7	–4.2	14.9	74	–15	4.75	*1.05*
C	C	**Eaton Vance Investors Fund/Eaton Vance**	12.8	10.0	6.1	205	–2	4.75	*0.92*
		Ellsworth Convert Grow & Inc/closed-end	—*	5.5	7.8	51	–3	NA	1.40
		Equitable Funds–Balanced/Equitable	—*	9.9	1.8	22	238	5.00b	*2.00p*
D	A	**Federated Stock & Bond Fund/Federated**	13.8	5.9	6.3	89	–3	none	1.01p
		Fidelity Asset Manager/Fidelity	—*	7.7	3.4	380	111	none	1.22
		Fidelity Balanced Fund/Fidelity	—*	7.8	9.0	223	63	2.00	0.93
		Fidelity Convertible Securities/Fidelity	—*	12.7	6.6	71	53	none	1.38
B	B	**Fidelity Puritan Fund/Fidelity**	16.4	4.3	7.5	4,865	4	2.00	0.65
		First Prairie Diversified Asset/Dreyfus	—*	9.7	7.4	8	27	4.50	*0.00p*
		Franklin Convertible Securities/Franklin	—*	5.8	7.2	20	20	4.00	0.24p
D	A	**Franklin Income Fund/Franklin**	12.7	4.4	11.1	1,434	36	4.00	0.54
		FundTrust–Growth & Income/Signature	—*	5.1	3.6	30	–23	1.50	*1.89*
		Heritage Income–Growth/Heritage	—*	–2.3	5.1	22	–5	4.00	*1.75p*
		Huntington CPI+ Fund/Huntington	—*	6.4	2.1	18	276	3.00	*2.00p*
C	B	**IDS Mutual/IDS**	13.9	3.6	6.4	1,671	5	5.00	0.69
C	A+	**Income Fund of America/American Funds**	16.4	6.0	8.8	2,094	76	5.75	*0.69*
		Investment Port–Total Return/Kemper	—*	13.2	4.0	572	12	5.00b	*2.17*
A+	F	**Kemper Total Return Fund/Kemper**	11.8	13.9	4.4	914	–3	5.75	0.78
C	C	**Keystone Custodian K-1/Keystone**	12.5	7.8	5.9	826	16	4.00b	*1.87*
		Lincoln National Convert Secs/closed-end	—*	9.2	7.0	96	–2	NA	0.94
		Mackenzie Growth & Income/Mackenzie	—*	2.6	1.4	13	75	2.75	*3.34p*
		Mackenzie No Amer Total Return/Mackenzie	—*	4.0	5.7	86	–46	5.00	1.36p
		MainStay–Convertible Fund[2]/NYLife	—*	1.3	5.6	20	–21	5.00b	*2.59*

nd not in operation for full period. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b ncludes back-end load that reverts to distributor. p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or not available. [1]Dual fund. formance, asset and expense data on capital and income shares treated as a unit. [2]Formerly MacKay-Shields MainStay–Convertible Fund.

Distributor table, page 248. Rules, page 176.

Annual Fund Ratings

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	An exp per
		Standard & Poor's 500 stock average	14.9%	16.4%	3.2%				
		Forbes balanced fund composite	7.2%	13.3%	5.6%				$1.
		MainStay–Total Return Fund/NYLife	—*	12.9%	2.8%	$47	162%	5.00%b	$2
A	C	Mass Financial Total Return/Mass Finl	15.4%	10.3	5.9	759	31	4.75	0.
		MassMutual Integrity–Balanced/MML	—*	10.7	4.4	42	28	4.50	1.
D	B	Merrill Lynch Equi-Bond I Fund/ML Funds	11.7	9.2	4.4	11	–10	†	2.
•B	•C	Merrill Lynch Phoenix Fund#/ML Funds	—*	5.2	4.0	258	–8	6.50	1.
		Merrill Lynch Retire Benefit Inv#/ML Funds	—*	7.9	6.4	1,433	–19	6.50	0.
		Merriman Timed Asset Alloc/Merriman	—*	7.8	4.5	22	558	none	1.
		MetLife-State Street Mngd Assets/MetLife	—*	9.7	6.2	65	86	4.50	1.
		Mimlic Asset Allocation Fund/Mimlic	—*	10.9	6.5	10	35	5.00	1.
F	A	Mutual of Omaha Income/Mutual of Omaha	12.2	8.7	7.8	171	4	4.75	0.
		National Strategic Allocation/National Secs	—*	9.6	2.6	84	–27	5.75	1.
C	B	National Total Income Fund/National Secs	15.9	6.6	6.0	224	34	5.75	1.
B	D	National Total Return Fund/National Secs	13.9	10.6	4.3	265	0	5.75	1.
		Noddings Convertible Strategies/Noddings	—*	0.5	8.1	4	–32	none	2.
		NA Security–Aggres Asset Alloc/Wood Logan	—*	–0.1	2.6	7	73	4.75	2.
		NA Security–Conserv Asset Alloc/Wood Logan	—*	6.7	8.3	12	33	4.75	2.
		NA Security–Mod Asset Alloc/Wood Logan	—*	1.8	6.1	45	7	4.75	2.
		Olympic Trust–Balanced Income/Olympic	—*	6.2	6.1	10	22	none	1.
		Oppenheimer Asset Allocation/Oppenheimer	—*	6.1	4.5	85	24	4.75	1.
		Oppenheimer Ninety Ten Fund/Oppenheimer	—*	2.8	8.8	11	–43	7.75	1.
		Overland Express Asset Allocation/Overland	—*	8.9	5.8	29	63	4.50	1.
		PaineWebber Asset Allocation/PaineWebber	—*	5.7	6.0	507	–19	5.00b	1.
B	D	Pax World Fund/Pax World	12.9	17.2	4.2	108	29	none	1.
•D	•C	Permanent Port–Permanent/Permanent	—*	1.8	none	88	–6	none	1.
C	•B	Phoenix Balanced Fund/Phoenix	—*	16.5	4.7	489	14	6.90	0.
B	B	Phoenix Convertible Fund/Phoenix	15.2	11.4	5.3	152	–2	6.90	1.
		Piper Jaffray Balanced Fund/Piper	—*	6.8	4.2	16	22	4.00	1.
		Princor Managed Fund/Princor	—*	20.0	4.3	21	8	5.00	1.
		ProvidentMutual Convertible[1]/Provident	—*	–1.1	3.8	9	–68	4.50	2.
C	C	ProvidentMutual Total Return[2]/Provident	13.0	10.5	8.6	70	35	6.00	1.
		Pru-Bache IncomeVertible#/Pru-Bache	—*	3.0	7.7	521	5	5.25	1.
B	D	Putnam Convert Income-Growth/Putnam	12.1	4.1	6.3	716	–18	5.75	0.
A	C	George Putnam Fund of Boston/Putnam	14.4	11.5	6.2	439	8	5.75	0.
		Quest for Value–Asset Allocation/Quest	—*	12.4	1.9	6	150	5.50	2.
•C	•B	Rea-Graham Balanced Fund/Rea	—*	2.6	7.1	41	–17	4.75	1.
		Rochester Convertible[3]/Rochester	—*	3.7	7.0	6	11	3.25	2.

•Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. †Closed to new investors. #Fund has two share classes, one wi large 12b-1 fee and back-end load and the other with small 12b-1 fee and front-end load. Results shown are for front-loaded shares. Assets are for entire fund. *Expense rat is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net partial absorption of expenses by fund sponsor. [1]Formerly RNC Convertible Securities. [2]Formerly Sigma Trust Shares. [3]Formerly Rochester Convertible–Growth Fun

Distributor table, page 248. Rules, page 176.

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Annual Fund Ratings

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Ann expe per $
		Rodney Square Multi–Total Return/Rodney	—*	15.0%	3.0%	$22	12%	5.75%	*$1.7*
		Royce Fund–Total Return/Quest Dist	—*	–10.1	3.7	3	–43	1.00b	*1.9*
		Schield–Timed Asset Allocation/Schield	—*	0.8	3.1	9	480	1.50	*2.3*
D	A	Seligman Income Fund/Seligman	12.5%	4.0	8.8	150	–8	4.75	0.7
C	B	Sentinel Balanced Fund/Equity	15.2	9.5	6.4	78	12	8.50	0.9
		Skyline Fund–Balanced/Mesirow	—*	9.2	4.6	13	6	3.85	*1.6*
		SLH Income–Convertible/Shearson	—*	–1.9	7.1	102	–32	5.00b	*1.7*
		SLH Income–Utilities/Shearson	—*	7.1	7.0	618	32	5.00b	*1.80*
C	F	SteinRoe Total Return Fund/Stein Roe	9.7	9.5	4.8	140	1	none	0.88
D	•A	Strong Investment Fund/Strong	—*	3.5	5.3	230	–7	1.00	1.30
C	•C	Strong Total Return Fund/Strong	—*	–10.4	7.1	809	–35	1.00	1.38
		SunAmerica Inc–Convertible[1]/SunAmerica	—*	–2.5	6.5	14	–49	4.75	*2.11*
		TCW Convertible Securities Fund/closed-end	—*	3.2	10.6	167	–8	NA	0.95
		Templeton Income Fund/Templeton	—*	8.2	9.9	110	–5	4.50	1.10

•Fund rated for two periods only, maximum allowable grade A. *Fund not in operation for full period. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or not available. [1]Formerly Integrated Income–Convertible Securities.

Distributor table, page 248. Rules, page 176.

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rformance in UP —markets—	in DOWN —markets—	Fund/distributor	Total return: Annual average 11/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Annual expenses per $100
		Thompson, Unger & Plumb/Thompson	—*	13.8%	2.6%	$12	46%	none	$2.00
C	C	Transamerica Growth & Income/Transamerica	12.9%	20.1	2.6	69	5	4.75%	*1.12*
		Transamerica Special Convertible/Transamerica	—*	12.4	4.5	9	–15	6.00b	*2.51*
		Triflex Fund/Securities Mgmt	—*	4.8	5.2	21	–9	7.50	1.31p
		20th Century Balanced/20th Century	—*	22.3	3.4	60	156	none	1.00
D	•D	Unified Income Fund/Unified	—*	6.7	7.4	5	–33	none	1.33
A	D	United Continental Income Fund/Waddell	14.7	10.7	5.5	320	5	8.50	0.81
B	C	United Retirement Shares/Waddell	13.6	13.0	4.1	161	28	8.50	0.87
		USAA Investment–Balanced/USAA	—*	6.4	4.3	38	120	none	1.00p
		Vanguard Convertible Securities/Vanguard	—*	7.3	5.9	55	–19	none	0.88
		Vanguard Equity Income Fund/Vanguard	—*	6.9	5.2	425	149	none	0.44
		Vanguard STAR Fund/Vanguard	—*	5.5	6.4	1,077	29	none	0.43
D	A+	Vanguard Wellesley Income Fund/Vanguard	15.1	8.2	8.0	919	37	none	0.45
A	C	Vanguard Wellington Fund/Vanguard	14.7	6.5	6.1	2,331	28	none	0.43

d rated for two periods only; maximum allowable grade A *Fund not in operation for full period *Expense ratio is in italics if the fund has a shareholder paid 12b-1 exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor p: Net of partial absorption of expenses by fund sponsor.

Distributor table, page 248. Rules, page 176.

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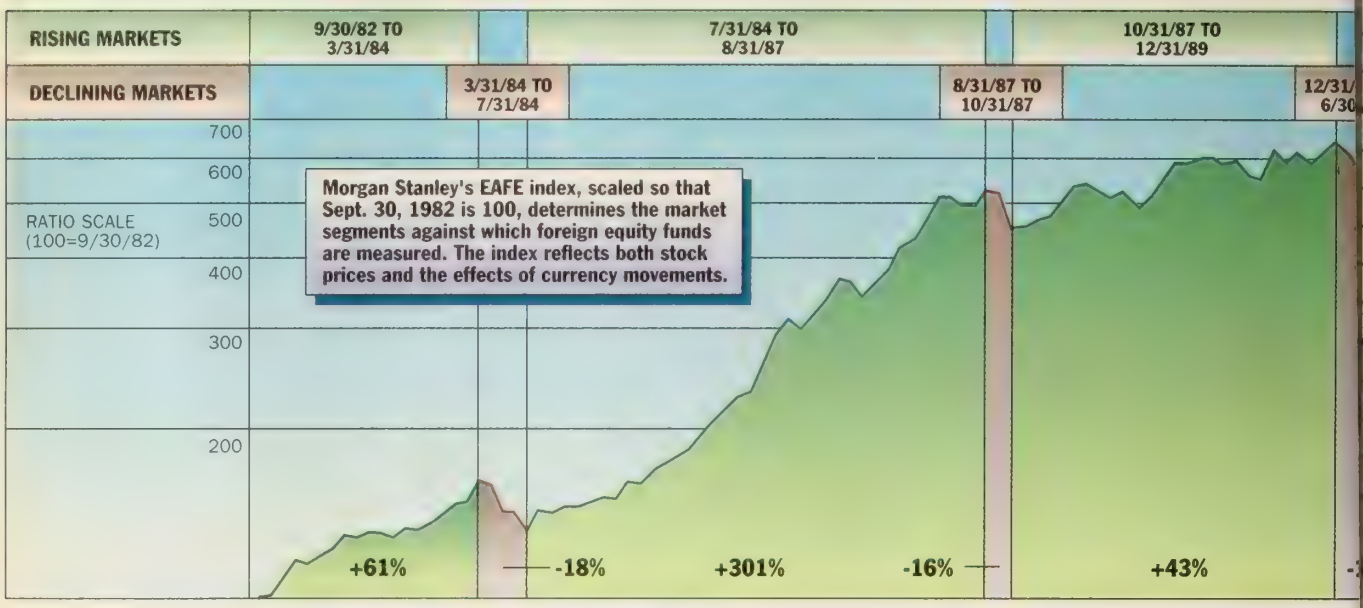
Foreign stock funds

U.S.-based stock funds with predominantly foreign portfolios are in this table. The benchmark for measuring foreign fund performance is the Morgan Stanley stock index for Europe, Australia, the Far East and New Zealand. The index aims to show the dollar return that a U.S. investor would have enjoyed in the average foreign stock. Thus, it reflects not only price movements on foreign bourses but also fluctuations in the value of the dollar. The standout performer on this t the Mexico Fund, the only one in our survey to rate a do A+. Mexican stocks were severely depressed in 1982, a beginning of our foreign fund measurement period. F based overseas, whether they invest in local makets or i U.S., are not covered in the main fund tables, althou sampling of British investment trusts appears on page 1



Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 9/82 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Ann expe per $
		Morgan Stanley Capital Intl EAFE index	27.0%	3.3%	1.4%				
		Forbes foreign stock fund composite	17.6%	18.0%	1.4%				$1.9
C	C	Alliance Global–Canadian Fund/Alliance	13.4%	–6.1%	none	$26	–17%	5.50%	*$2.3*
A	C	Alliance International Fund/Alliance	24.5	15.3	0.2%	266	60	5.50	*1.4*
		AMA Family of Funds–Global Growth/AMA	—*	14.2	4.1	109	5	none	*1.6*
D	D	ASA Limited/closed-end	8.0	10.2	6.1	552	4	NA	0.5
		Asia Pacific Fund/closed-end	—*	45.4	0.2	143	40	NA	1.7
		Babson-Stewart Ivory Intl/Jones & Babson	—*	23.4	0.3	11	184	none	2.6
		Boston Co Inv–International/Boston Co	—*	14.6	1.4	35	70	none	*1.7*
		Brazil Fund/closed-end	—*	–29.5	19.2	120	–40	NA	2.0
D	D	Bull & Bear Gold Investors/Bull & Bear	4.3	1.5	1.0	39	3	none	*2.4*
		Capstone Intl–European Plus/Capstone	—*	22.6	0.3	15	NM	4.75	4.7
		Clemente Global Growth Fund/closed-end	—*	28.8	none	73	27	NA	3.0
		Colonial Intl Equity Index/Colonial	—*	15.6	none	15	32	4.75	*2.8*
		Counsellors International Equity/Counsellors	—*	28.4	0.8	34	329	none	1.4

*Fund not in operation for full period. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* p: Net partial absorption of expenses by fund sponsor. NA: Not applicable or not available. NM: Not meaningful.

Distributor table, page 248. Rules, page 176.

Performance in UP —markets—	Performance in DOWN —markets—	Fund/distributor	Total return: Annual average 9/82 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Annual expenses per $100
		Morgan Stanley Capital Intl EAFE index	27.0%	3.3%	1.4%				
		Forbes foreign stock fund composite	17.6%	18.0%	1.4%				$1.94
•C	B	Dean Witter World Wide Inv/Dean Witter	—*	15.4%	1.7%	$323	10%	5.00%b	*$2.21*
		Dreyfus Strategic World Inv LP/Dreyfus	—*	19.7	none	21	18	3.00	*1.50p*
		Enterprise Group–Intl Grow/Enterprise	—*	15.5	none	10	82	4.75	*2.50p*
		Enterprise Group–Precious Metals/Enterprise	—*	4.7	2.4	6	20	4.75	*2.50p*
•B	•A	EuroPacific Growth Fund/American Funds	—*	27.8	1.9	805	222	5.75	*1.24*
		European Emerging Companies/Review	—*	23.5	0.2	35	172	4.50	*2.25p*
		Fenimore Intl Fund Equity/Burnham	—*	30.6	none	45	–7	5.00	*2.52p*
		Fidelity Canada Fund/Fidelity	—*	5.4	0.1	23	2	3.00b	2.00p
		Fidelity Europe Fund/Fidelity	—*	30.9	1.0	450	509	3.00b	1.54
		Fidelity International Grow & Inc/Fidelity	—*	21.1	1.1	36	42	2.00b	2.02p
		Fidelity Overseas Fund/Fidelity	—*	28.8	0.9	1,108	23	3.00	1.13
		Fidelity Pacific Basin Fund/Fidelity	—*	9.0	0.1	101	–8	3.00b	1.38
		Financial Strategic–European/Financial Prog	—*	25.2	1.1	90	NM	none	1.78
•A	C	Financial Strategic–Pacific Basin/Financial Prog	—*	14.7	0.1	20	–16	none	1.62
		First Australia Fund/closed-end	—*	7.3	6.0	59	1	NA	2.24
		First Iberian Fund/closed-end	—*	19.4	1.0	75	17	NA	2.20p
B	C	First Investors Global[1]/First Inv	22.8%	39.1	none	246	196	6.90	*1.75*
		Flag Investors International Trust/Brown	—*	19.4	4.1	51	59	4.50	*1.49p*
C	D	Franklin Gold Fund/Franklin	11.2	10.1	3.7	279	0	4.00	0.78
		Freedom Inv II–Global Fund/Freedom	—*	20.8	none	41	20	3.00b	*2.41*
		FT International/Federated	—*	20.9	1.2	78	26	4.50	1.52p
		GAM Global Fund/GAM	—*	27.1	0.2	26	58	5.00	*2.68*
		GAM International Fund/GAM	—*	29.1	0.5	26	45	5.00	*2.74*
		GAM Pacific Basin Fund/GAM	—*	32.3	none	12	125	5.00	*5.93p*
		Germany Fund[2]/closed-end	—*	45.8	0.5	173	147	NA	1.10
		GT Global Growth–Europe/GT Global	—*	29.6	none	1,705	NM	4.75	*1.90*
		GT Global Growth–Intl/GT Global	—*	26.1	none	348	508	4.75	*1.90*
		GT Global Growth–Japan/GT Global	—*	36.6	none	73	196	4.75	*2.10*
A	C	GT Global Growth–Pacific/GT Global	24.9	30.4	none	265	197	4.75	*2.00*
		GT Global Growth–Worldwide/GT Global	—*	23.3	none	85	351	4.75	*2.00*
		John Hancock Global Trust/Hancock	—*	18.1	0.8	103	–7	4.50	*2.02*
		John Hancock World–Pac Basin Eq/Hancock	—*	22.2	none	5	8	4.50	*2.24p*
		Harbor International/HCA Securities	—*	27.3	0.9	62	177	none	1.32p
		IAI International Fund/IAI Funds	—*	13.1	2.6	33	76	none	1.90
		IDS International Fund/IDS	—*	28.8	1.0	238	20	5.00	1.41
		IDS Precious Metals Fund/IDS	—*	–2.9	1.4	81	–12	5.00	1.46
		IDS Strategy–Pan Pacific Growth/IDS	—*	21.4	0.1	47	–4	5.00b	*2.42*

•ind rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 fn exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of partial absorption of expenses by fund sonsor. NA: Not applicable or not available. NM: Not meaningful. [1]Formerly First Investors International Fund. [2]Performance adjusted for secondary offering.

Distributor table, page 248. Rules, page 176.

Annual Fund Ratings/Foreign Stocks

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 9/82 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Ann' exper per $
		Morgan Stanley Capital Intl EAFE index	27.0%	3.3%	1.4%				
		Forbes foreign stock fund composite	17.6%	18.0%	1.4%				$1.9
		Italy Fund/closed-end	—*	50.6%	0.9%	$100	49%	NA	$1.9
		Ivy International Fund/Ivy	—*	21.6	0.8	80	118	none	1.8
B	B	Japan Fund/Scudder	27.5%	17.5	0.5	382	5	none	1.0
B	C	Kemper International Fund/Kemper	22.4	23.4	0.7	215	18	5.75%	1.0
D	C	Keystone International Fund/Keystone	15.3	0.9	none	96	–16	4.00b	*2.7*
D	D	Keystone Precious Metals/Keystone	5.5	–4.5	1.8	168	–17	4.00b	*2.2*
B	C	Kleinwort Benson–Intl Equity/Kleinwort	23.3	22.8	1.4	93	51	none	*2.0*
		Korea Fund[1]/closed-end	—*	–47.5	0.9	303	–6	NA	1.4
		Lexington Global Fund/Lexington	—*	15.3	0.2	56	33	5.00	1.6
		Lord Abbett Global–Equity/Lord Abbett	—*	13.5	1.1	37	149	6.75	*1.2*
		Mackenzie Canada Fund/Mackenzie	—*	–6.8	2.5	16	54	5.00	*2.3*
		MainStay–Global Fund[2]/NYLife	—*	7.8	none	21	10	5.00b	*3.5*
		Malaysia Fund/closed-end	—*	29.8	0.8	104	30	NA	1.9
		Merrill Lynch EuroFund#/ML Funds	—*	31.5	0.7	612	193	6.50	1.1
		Merrill Lynch Global Alloc#/ML Funds	—*	15.9	4.3	182	72	6.50	1.2
		Merrill Lynch Global Convert#/ML Funds	—*	3.3	5.2	23	–32	4.00	2.1
•C	•B	Merrill Lynch Intl Holdings#/ML Funds	—*	18.7	1.8	225	20	6.50	1.4
A	D	Merrill Lynch Pacific Fund#/ML Funds	28.9	14.1	0.3	326	13	6.50	1.0
A+	A+	Mexico Fund[1]/closed-end	41.0	38.0	3.7	297	32	NA	1.60
		MFS Lifetime Global Equity Trust/Mass Finl	—*	23.8	none	79	86	6.00b	*3.05*
		MFS Lifetime Gold & Prec Met/Mass Finl	—*	0.5	none	7	132	6.00b	*3.67*
		Nomura Pacific Basin Fund/Nomura	—*	14.0	1.3	60	–9	none	1.32
		Oppenheimer Global Bio-Tech/Oppenheimer	—*	29.9	none	13	594	6.75	*2.40*
C	B	Oppenheimer Global Fund/Oppenheimer	23.1	34.4	0.3	809	78	8.50	1.79
•A	•C	PaineWebber Classic Atlas Fund/PaineWebber	—*	20.1	0.7	216	16	4.50	*1.50*
		PaineWebber Classic World/PaineWebber	—*	15.8	5.3	102	4	4.50	*2.20*
		T Rowe Price Intl Discovery/Price	—*	47.1	0.9	164	NM	none	1.50
B	B	T Rowe Price International Stock/Price	24.8	25.5	1.5	1,163	69	none	1.05
		Princor World Fund/Princor	—*	16.4	0.4	17	27	5.00	*1.68*
		ProvidentMutual World[3]/ProvidentMutual	—*	12.1	0.2	7	–4	6.00	*2.90*
•C	•C	Pru-Bache Global Fund#/Pru-Bache	—*	7.8	2.6	332	–17	5.25	*1.97*
		Pru-Bache Global Genesis#/Pru-Bache	—*	12.8	none	41	204	5.25	*3.90*
		Pru-Bache Global Natural Res#/Pru-Bache	—*	7.1	0.6	45	3	5.25	*2.72*
C	B	Putnam International Equities/Putnam	24.6	22.5	1.6	630	35	5.75	*1.40*
		Rodney Square Intl–Equity/Rodney	—*	21.9	0.6	71	19	5.75	*1.75*
		Scudder Global Fund/Scudder	—*	20.0	0.5	257	183	none	1.81
B	B	Scudder International Fund/Scudder	25.1	25.7	1.5	936	66	none	1.18

•Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. #Fund has two share classes, one with large 12b-1 fee and back-end load and the other with small 12b-1 fee and front-end load. Results shown are for front-loaded shares. Assets are for entire fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or not available. NM: Not meaningful. [1]Performance adjusted for secondary offering. [2]Formerly MacKay-Shields MainStay–Global Fund. [3]Formerly Sigma World Fund.

Distributor table, page 248. Rules, page 176.

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Annual Fund Ratings/Foreign Stocks

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 9/82 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Ann exp per
		Morgan Stanley Capital Intl EAFE index	27.0%	3.3%	1.4%				
		Forbes foreign stock fund composite	17.6%	18.0%	1.4%				$1.
		Scudder New Asia Fund/closed-end	—*	58.6%	0.7%	$131	45%	NA	$1.
		SLH Equity–International/Shearson	—*	9.7	none	58	–17	5.00%b	2.
•D	•C	SLH Global Opportunities/Shearson	—*	12.0	2.3	78	–17	5.00	1.
		SLH Investment–Global Equity/Shearson	—*	13.4	0.9	9	0	5.00b	3.
		SLH Precious Metals & Mins/Shearson	—*	–2.4	2.1	27	–26	5.00	2.
		Spain Fund/closed-end	—*	22.9	1.7	151	15	NA	1.
		SteinRoe International Growth/Stein Roe	—*	21.3	none	20	26	none	2.
F	F	Strategic Investments Fund/Strategic	–6.9%	–11.2	5.3	35	–26	8.50	1.
		Swiss Helvetia Fund/closed-end	—*	28.5	none	118	28	NA	1.
		Taiwan Fund[1]/closed-end	—*	–24.2	none	75	–36	NA	2.
		Templeton Emerging Markets/closed-end	—*	48.8	1.0	186	45	NA	2.
•B	A	Templeton Foreign Fund/Templeton	—*	32.1	3.0	881	126	8.50	0.
C	B	Templeton Global/Templeton	18.5	7.9	2.5	893	2	8.50	0.
C	A	Templeton Growth Fund/Templeton	19.8	16.3	3.8	2,662	26	8.50	0.
		Thai Fund/closed-end	—*	72.8	1.6	221	57	NA	1.
		Thomson McKinnon–Global/Thomson	—*	15.7	none	47	–14	5.00b	2.
		Transamerica Spec Global Grow/Transamerica	—*	7.5	none	8	1	6.00b	4.
		Tyndall World–Tiger/Tyndall	—*	19.1	0.3	8	938	5.00	3.
		Tyndall World–TV EuroPacific/Tyndall	—*	11.2	0.4	8	225	5.00	2.
		United Gold & Government Fund/Waddell	—*	–3.5	2.3	63	–23	8.50	1.
C	A	United International Growth/Waddell	19.4	15.3	1.9	292	13	8.50	1.
		United Kingdom Fund/closed-end	—*	4.3	1.6	46	–1	NA	1.
•D	•D	United Services–Global Resources/United	—*	–0.5	7.9	32	–14	none	2.
D	D	United Services–Gold Shares Fund[2]/United	1.5	5.5	5.0	295	25	none	1.
		United Services–New Prospector/United	—*	–6.2	0.9	73	–16	none	1.
		US Boston Inv–Foreign G&I[3]/US Boston	—*	15.5	0.3	32	47	1.00b	2.
		USAA Investment–International/USAA	—*	21.3	0.2	23	124	none	2.
		UST Master Funds–Intl/UST Secs	—*	21.0	1.6	26	94	4.50	1.
D	D	Van Eck International Investors/Van Eck	9.3	11.0	2.3	699	–4	8.50	0.
		Van Eck World Trends Fund/Van Eck	—*	18.0	1.3	57	–8	5.75	1.
•C	•D	Vanguard Spec–Gold & Prec Metals/Vanguard	—*	5.0	2.8	161	30	none§	0.45
•B	A	Vanguard Trustees Comm–Intl/Vanguard	—*	25.7	2.6	820	61	none	0.46
		Vanguard World–Intl Growth/Vanguard	—*	25.2	1.2	828	79	none	0.64
		Warburg International Fund/Keffer	—*	14.4	0.3	11	4	4.50	1.11
		Worldwide Value Fund/closed-end	—*	4.6	0.5	57	–5	NA	2.30
		WPG International Fund/Weiss	—*	11.1	none	16	189	none	2.30
•D	•B	Z-Seven Fund/closed-end	—*	4.2	3.2	19	–9	NA	1.16

•Fund rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. §Distributor may impose redemption fee whose proceeds revert the fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that rever to distributor. p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or not available. [1]Performance adjusted for secondary offering. [2]Forme United Services–Prospector Fund. [3]Fund has Class A shares with a $5 million minimum investment.

Distributor table, page 248. Rules, page 176.

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Foreign bond funds

Funds that buy foreign bonds look a lot better in this survey than they did in last year's: The average one-year total return is 13.6%, against a 2.5% average in the 1989 fund survey. These numbers are largely a reflection of the dollar's strength or weakness over the previous 12 months. When the dollar rises in value against other currencies, as it did in the year ended June 1989, foreign bond funds turn in very bad results to U.S. dollar investors. When the dollar falls, as it has recently, U.S. investors benefit from having their mo parked in foreign currencies. The moral of this story: D take the glorious one-year returns you see below as an ind tion of likely returns over the long haul. Putting some of y fixed-income portfolio abroad will probably lessen the v tility in it, since diversification reduces volatility. The nothing wrong with doing that. But buying foreign bo probably won't do much to improve your long-term retu

Fund/distributor	Total return: Annual average 9/82 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 (millions)	Assets: % change '90 vs '89	Maximum sales charge	Ann expe per $
Forbes foreign bond fund composite		13.6%	8.8%				$1.4
Alliance Short-Term Multi Market Trust#/Alliance	—*	15.1%	11.0%	$949	830%	$3.00	*$1.1*
Capital World Bond Fund/American Funds	—*	7.0	8.5	37	6	4.75	*1.3*
Dean Witter Worldwide Income/Dean Witter	—*	8.8	9.5	431	51	5.00b	1.8
Fidelity Global Bond Fund/Fidelity	—*	11.0	4.3	80	86	none	1.4
First Australia Prime Income/closed-end	—*	23.4	12.5	833	9	NA	1.5
Freedom Inv II–Global Income/Freedom	—*	7.7	9.8	190	–18	3.00b	*1.8*
Global Government Plus/closed-end	—*	7.3	11.0	371	–13	NA	1.1
Global Income Plus Fund/closed-end	—*	16.4	8.7	238	7	NA	1.2
Global Yield Fund/closed-end	—*	13.2	9.7	586	–2	NA	1.0
GT Investment–Global Bond/GT Global	—*	4.0	7.9	40	20	4.75	*1.8*
International Cash–Global[1]/Huntington	—*	12.0	7.0	75	–12	2.25	*2.0*
Kleinwort Benson Australian Income/closed-end	—*	17.9	8.4	65	6	NA	1.6
Mass Financial Intl-Bond/Mass Finl	14.4%	13.6	3.9	122	–4	4.75	*1.4*
Merrill Lynch Retire Global Bond#/ML Funds	—*	15.0	9.5	276	3	4.00	1.0
PaineWebber Master Global Income/PaineWebber	—*	17.9	8.2	1,105	1	5.00b	*1.9*
T Rowe Price International Bond/Price	—*	10.4	8.6	306	16	none	1.2
Putnam Global Governmental/Putnam	—*	12.6	9.8	197	28	4.75	*1.6*
Scudder International Bond/Scudder	—*	17.6	9.0	73	446	none	1.2
SLH Income–Global Bond/Shearson	—*	8.0	7.0	62	–39	5.00b	*2.0*
SLH Investment–European/Shearson	—*	30.1	0.5	26	878	5.00	*2.9*
Templeton Global Govt Income/closed-end	—*	14.2	10.7	186	5	NA	1.1
Templeton Global Income Fund[2]/closed-end	—*	8.6	11.8	968	–2	NA	0.8
Van Eck World Income Fund/Van Eck	—*	18.8	9.7	43	15	4.75	*1.4*
World Income Fund/closed-end	—*	15.7	12.3	296	2	NA	0.8

*Fund not in operation for full period. #Fund has two share classes, one with large 12b-1 fee and back-end load and the other with small 12b-1 fee and front-end lo Results shown are for front-loaded shares. Assets are for entire fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden lo pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or n available. [1]Invests in foreign money market instruments. [2]Performance adjusted for secondary offering.

Distributor table, page 248. Rules, page 176.

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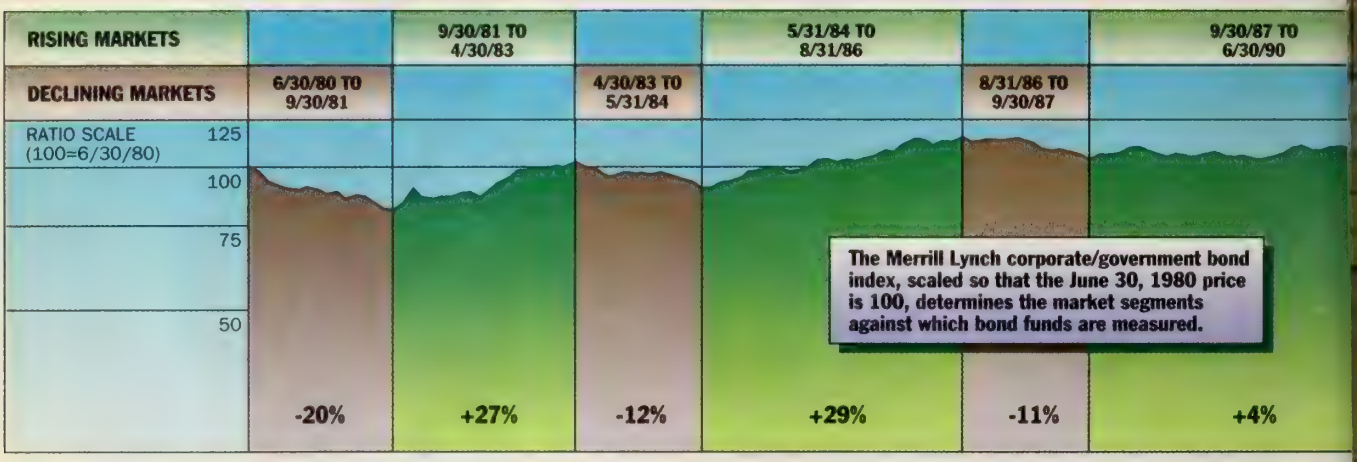
Taxable bond funds

Bond funds are rated according to the same formula as stock funds, with separate grades for up and down markets. The concept: It's easy to do well in either bull markets (by buying long-term bonds) or bear markets (by buying short-term bonds) but hard to do well in both. The rating period for bond funds starts in June 1980. To be rated at all, a bond fund must have been in existence since April 1983, or two full market cycles. Our benchmark for evaluating bond funds i Merrill Lynch corporate/government bond index. Mun bond funds are listed separately starting on page 230; f bond funds are shown on page 218. To get on the list be fund must be at least a year old. Also, it must have $100 million in assets or $25 million in assets and e history to be rated.



Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 6/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Ann expe per $
		Merrill Lynch corporate/govt bond index	11.5%	6.9%	8.8%				
		Forbes taxable bond fund composite	10.9%	3.0%	10.5%				$1.0
		AAL Income Fund/AAL Mutual	—*	7.0%	8.3%	$103	69%	4.75%	*$1.0*
		AARP Income–GNMA & US Treas/Scudder	—*	8.3	8.8	2,553	–1	none	0.8
		AARP Income–High Quality Bond[1]/Scudder	—*	6.3	7.9	146	15	none	1.1
		ACM Government Income Fund/closed-end	—*	5.4	12.5	477	–6	NA	1.3
		ACM Government Opportunity/closed-end	—*	6.0	11.3	104	–5	NA	1.2
		ACM Government Securities/closed-end	—*	6.0	12.5	665	–5	NA	1.3
		ACM Government Spectrum/closed-end	—*	5.2	10.9	269	–5	NA	1.4
		ACM Managed Income Fund/closed-end	—*	–1.2	12.2	255	38	NA	1.1
		Advantage Government Securities/Advest	—*	6.6	8.4	113	–9	4.00b	*1.4*
F	A	Aim High Yield Securities/AIM	8.5%	–7.9	15.3	46	–35	4.75	*1.4*
		Alliance Bond–High Yield/Alliance	—*	–23.8	17.6	128	–53	5.50	*1.3*
A	D	Alliance Bond–Monthly Inc Shs/Alliance	11.5	3.3	10.0	68	30	5.50	*1.5*
		Alliance Bond–US Government/Alliance	—*	6.0	10.2	511	–4	5.50	*1.0*
		Alliance Mortgage Secs Income/Alliance	—*	8.1	10.6	510	–16	5.50	*1.1*
D	C	AMA Family of Funds–US Govt Inc +/AMA	9.0	7.1	8.5	39	–2	none	*1.8*

*Fund not in operation for full period. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in fo* b: Includes back-end load that reverts to distributor. p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or not available. [1]Formerly A Income–General Bond.

Distributor table, page 248. Rules, page 176.

rformance in DOWN markets		Fund/distributor	Total return: Annual average 6/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Annual expenses per $100
		Merrill Lynch corporate/govt bond index	**11.5%**	**6.9%**	**8.8%**				
		Forbes taxable bond fund composite	**10.9%**	**3.0%**	**10.5%**				**$1.06**
C	B	**American Capital Bond Fund/closed-end**	11.0%	2.5%	11.1%	$205	–7%	NA	$0.71
C	B	**American Capital Corp Bond/American Cap**	10.7	1.1	10.2	203	–18	4.75%	*0.75*
		American Capital Govt Secs/American Cap	—*	5.7	9.9	4,108	–17	4.75	*0.90*
D	B	**American Capital High Yld Inv/American Cap**	8.4	–14.8	16.2	374	–39	4.75	*0.77*
		American Capital Income Trust/closed-end	—*	–4.2	13.4	115	–15	NA	0.97
		American Income-US Govt Guar/American Funds	—*	8.1	9.6	603	24	4.75	*0.97*
		American Government Income/closed-end	—*	10.2	12.2	141	1	NA	1.02
		American Government Inc Port/closed-end	—*	9.7	11.6	205	1	NA	1.02
		American High-Income Trust/American Funds	—*	3.3	12.1	144	21	4.75	*0.97p*
B	D	**AMEV Securities/closed-end**	10.3	2.9	11.5	106	–6	NA	0.85
C	B	**AMEV US Govt Securities Fund/AMEV**	11.4	7.9	9.6	155	38	4.50	0.83
B	C	**Axe-Houghton Income Fund/Axe**	11.9	5.0	8.8	64	1	none	*1.41*
C	B	**Babson Bond Trust–Long-Term/Jones & Babson**	10.7	6.3	8.8	84	18	none	0.97
		Bartlett Capital–Fixed Income/Bartlett	—*	6.5	8.4	158	–3	none	1.00
		Benham Government Inc–GNMA/Benham	—*	8.4	9.0	307	18	none	0.75p
		Benham Target Maturities–2015/Benham	—*	–4.0	none	319	92	none	0.70p
D	A	**Benham Treasury Note Fund/Benham**	9.6	6.9	7.6	104	28	none	0.75p
		Bernstein Govt Short Duration/Bernstein	—*	7.5	8.0	172	44	none	0.75
		Bernstein Intermed Duration/Bernstein	—*	6.6	8.0	246	63	none	0.73
		Bernstein Short Duration Plus/Bernstein	—*	7.8	8.0	391	28	none	0.70
		Blackstone Income Trust/closed-end	—*	14.6	13.0	507	2	NA	1.12
		Blackstone Target Term Trust/closed-end	—*	8.3	10.6	881	–3	NA	0.96
B	C	**Bond Fund of America/American Funds**	11.9	5.2	9.9	1,726	39	4.75	*0.76*
D	A	**Boston Co Managed Income/Boston Co**	10.2	3.1	8.6	78	1	none	*1.09*
C	C	**Bunker Hill Income Securities/closed-end**	10.3	–1.2	12.9	42	–12	NA	1.07
		Calvert Fund–Income/Calvert	—*	6.7	8.6	31	47	4.50	*1.14*
		Cardinal Government Guaranteed/Cardinal	—*	8.7	9.6	116	–6	4.75	0.75
		Cigna High Income Shares/closed-end	—*	–14.0	15.9	178	–22	NA	1.08
B	B	**Cigna High Yield Fund/Cigna Mutual**	11.7	–2.9	14.1	250	–17	5.00	*0.99*
A	C	**Cigna Income Fund/Cigna Mutual**	11.6	4.8	9.3	223	0	5.00	*0.96*
C	B	**Circle Income Shares/closed-end**	11.0	6.5	9.8	32	–3	NA	0.98
B	C	**CNA Income Shares/closed-end**	11.4	0.9	12.2	76	–8	NA	0.88
		Colonial Government Secs Plus/Colonial	—*	5.6	8.6	2,366	–14	6.75	*1.16*
D	A	**Colonial High Yield Securities/Colonial**	10.6	–4.3	15.1	323	–29	4.75	*1.21*
C	D	**Colonial Income Trust/Colonial**	10.1	2.5	10.3	152	–7	4.75	*1.15*

d not in operation for full period. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force* p: Net of al absorption of expenses by fund sponsor. NA: Not applicable or not available.

Distributor table, page 248. Rules, page 176.

Annual Fund Ratings/Taxable Bond

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 6/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Ann expe per $
		Merrill Lynch corporate/govt bond index	11.5%	6.9%	8.8%				
		Forbes taxable bond fund composite	10.9%	3.0%	10.5%				$1.0
		Columbia Fixed Income Secs/Columbia	—*	7.2%	8.3%	$119	15%	none	$0.7
		Common Sense–Government/Common Sense	—*	5.5	9.1	129	38	6.75%	1.2
C	C	Composite Income Fund/Murphey Favre	9.6%	5.2*	9.6	70	–49	4.00	*1.0*
		Comstock Partners Strategy Fund/closed-end	—*	1.2	7.5	1,201	–12	NA	0.8
A+	D	Current Income Shares/closed-end	12.6	6.5	9.3	44	–3	NA	0.9
		Dean Witter Government Income/closed-end	—*	9.3	9.5	536	–1	NA	0.7
		Dean Witter Govt Secs Plus/Dean Witter	—*	5.9	8.2	1,524	–21	5.00b	*1.5*
D	B	Dean Witter High Yield Secs/Dean Witter	7.3	–22.1	19.4	771	–61	5.50	0.5
		Dean Witter Intermediate Inc/Dean Witter	—*	4.4	9.0	116	328	5.00b	*1.4*
		Dean Witter US Govt Securities/Dean Witter	—*	7.7	9.6	9,888	–2	5.00b	*1.1*
B	C	Delaware Group Delchester H-Y–I/Delaware	10.5	–4.9	14.4	524	–24	6.75	0.8
		Delaware Group Govt–Govt Inc/Delaware	—*	7.2	8.8	148	5	4.75	*1.1*
		Delaware Group Treasury–Inv/Delaware	—*	8.1	8.5	112	3	none	*0.9*
C	B	Dreyfus A Bonds Plus/Dreyfus	11.2	4.2	8.6	319	9	none	0.8
		Dreyfus GNMA Fund/Dreyfus	—*	8.4	9.0	1,528	–6	none	*0.9*
		Dreyfus Strategic Govt Income/closed-end	—*	9.3	10.0	158	–1	NA	0.8
		Eaton Vance Government Oblig/Eaton Vance	—*	8.3	9.9	284	–7	4.75	*1.2*
A+	F	1838 Bond-Debenture Trading/closed-end	12.6	6.7	9.0	53	–2	NA	1.1
		Equitec Siebel US Govt Secs/Equitec	—*	7.5	9.8	424	41	5.00b	*2.0*
B	F	Excelsior Income Shares/closed-end	9.9	6.9	6.1	39	1	NA	1.0
•B	•C	Federated GNMA Trust/Federated	—*	8.3	9.1	1,331	–16	none	0.5
D	C	Federated High Income Securities/Federated	10.0	–4.4	14.8	288	–25	4.50	*1.0*
		Federated High Yield Trust/Federated	—*	–4.5	15.4	129	–41	none	0.7
•B	•B	Federated Income Trust/Federated	—*	9.1	9.2	974	–12	none	0.5
		Federated Intermediate Govt/Federated	—*	7.2	8.0	894	–23	none	0.51
		Federated Short-Intermed Govt/Federated	—*	7.9	8.3	1,496	–25	none	0.48
B	D	Fidelity Flexible Bond Fund/Fidelity	10.1	6.3	8.8	390	8	none	0.70
		Fidelity Ginnie Mae/Fidelity	—*	8.1	8.2	634	–1	none	0.83
D	B	Fidelity Government Securities/Fidelity	10.3	7.1	8.6	485	–13	none	0.73
C	A	Fidelity High Income Fund/Fidelity	11.7	–7.8	13.7	1,193	–40	none	0.81
D	A	Fidelity Intermediate Bond Fund/Fidelity	11.4	6.6	8.5	698	24	none	0.72
		Fidelity Mortgage Securities/Fidelity	—*	8.3	8.1	385	–10	none	0.80
		Fidelity Short-Term Bond/Fidelity	—*	7.7	8.3	203	–10	none	0.83
		Fidelity Spartan Government Fund/Fidelity	—*	8.1	9.0	331	522	none	0.16
		Fidelity Spartan Ltd Mat Govt[1]/Fidelity	—*	7.5	8.2	134	7	none	0.80
C	C	Financial Bond Shs–Select Inc/Financial Prog	10.4	5.7	9.9	33	4	none	0.99

•Fund rated for two periods only, maximum allowable grade A. *Fund not in operation for full period. *Expense ratio is in italics if the fund has a shareholder-paid 12b plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of partial absorption of expenses by fu sponsor. NA: Not applicable or not available. [1]Formerly Fidelity Short-Term Government.

Distributor table, page 248. Rules, page 176.

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Annual Fund Ratings/Taxable Bond

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 6/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Ann expe per $
		Merrill Lynch corporate/govt bond index	11.5%	6.9%	8.8%				
		Forbes taxable bond fund composite	10.9%	3.0%	10.5%				$1.0
		First Boston Income Fund/closed-end	—*	1.2%	11.4%	$192	–9%	NA	$0.9
F	B	First Investors Fund for Income/First Inv	7.0%	–11.0	15.4	982	–42	6.90%	*1.0*
		First Investors Government Fund/First Inv	—*	7.6	8.8	232	–2	6.90	*1.0*
		First Investors High Yield Fund[1]/First Inv	—*	–11.5	15.2	648	–12	6.90	*1.2*
		First Trust–US Government/Brown & Assoc	—*	8.6	8.8	217	–11	4.50	*0.8*
		Flag Inv Total Return US Treas[2]/Brown	—*	4.6	9.2	322	77	4.50	*0.8*
A+	F	Fort Dearborn Income Securities/closed-end	12.2	5.8	9.1	103	–3	NA	0.8
C	B	FPA New Income Fund/Angeles Secs	11.5	5.6	8.0	35	82	4.50	1.0
		Franklin Adjustable US Govt Secs/Franklin	—*	10.4	10.7	316	683	4.00	*0.3*
D	B	Franklin AGE High Income Fund/Franklin	9.6	–6.7	16.6	1,712	–26	4.00	0.5
		Franklin Principal Maturity Trust/closed-end	—*	–2.2	13.3	165	–14	NA	3.6
B	D	Franklin US Government Secs/Franklin	10.2	8.6	10.1	11,253	–2	4.00	0.5
		Franklin Universal Trust/closed-end	—*	–6.4	14.9	206	–18	NA	5.2
		Freedom Inv–Govt Income[3]/Freedom	—*	8.0	7.9	136	–8	3.00b	*1.3*
B	D	Fund for US Govt Securities/Federated	10.3	7.6	9.3	1,048	–2	4.50	*0.9*
		Government Income Securities/Federated	—*	7.4	10.2	1,281	–11	1.75b	0.9
		GT Investment–Global Govt Inc/GT Global	—*	9.3	11.5	201	110	4.75	*1.7*
B	D	John Hancock Bond Trust/Hancock	11.0	6.7	9.9	1,110	–2	4.50	*1.3*
A	D	John Hancock Income Securities/closed-end	11.9	6.7	9.6	147	–2	NA	0.71
B	B	John Hancock Investors Trust/closed-end	12.2	5.7	9.7	144	–3	NA	0.71
		John Hancock US Govt Guar Mort/Hancock	—*	7.9	8.9	314	–13	4.50	*1.15*
D	B	John Hancock US Govt Securities/Hancock	9.6	6.6	9.4	178	–4	4.50	*1.55*
B	C	Hatteras Income Securities/closed-end	11.7	4.4	10.5	48	–5	NA	0.98
		High Income Advantage Trust/closed-end	—*	–20.4	21.1	181	–33	NA	0.98
		High Income Advantage Trust II/closed-end	—*	–16.1	19.0	245	–29	NA	0.89
•C	•D	Home Investors Govt Guar Inc/SunAmerica	—*	7.7	8.0	136	–17	5.00b	*1.92*
B	D	IAI Bond Fund/IAI Funds	10.4	5.3	7.1	89	34	none	0.90
A	C	IDS Bond Fund/IDS	11.8	2.1	8.8	1,779	–1	5.00	0.75
		IDS Extra Income Fund/IDS	—*	–10.4	13.1	982	–26	5.00	0.82
		IDS Federal Income Fund/IDS	—*	8.4	8.5	234	28	5.00	0.82
A	D	IDS Selective Fund/IDS	11.9	4.8	8.1	1,194	7	5.00	0.77
		IDS Strategy–Income/IDS	—*	3.2	7.4	242	26	5.00b	*1.72*
A	D	INA Investment Securities/closed-end	11.0	5.1	9.4	84	–4	NA	1.03
A	F	Independence Square Income Secs/closed-end	11.3	2.2	9.3	30	–7	NA	0.97
A	C	InterCapital Income Securities/closed-end	12.0	3.1	11.7	209	–5	NA	0.71
		Intermediate Bond Fund of Am/American Funds	—*	6.4	9.3	135	43	4.75	*0.88*

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Distributor table, page 248. Rules, page 176.

rformance n in P DOWN —markets—		Fund/distributor	Total return Annual average 6/80 to 6/90	Total return Last 12 months	Yield	Assets 6/30/90 ($mil)	Assets % change '90 vs '89	Maximum sales charge	Annual expenses per $100
		Merrill Lynch corporate/govt bond index	**11.5%**	**6.9%**	**8.8%**				
		Forbes taxable bond fund composite	**10.9%**	**3.0%**	**10.5%**				**$1.06**
		Investment Port–Diversified Inc/Kemper	—*	2.6%	13.5%	$279	–27%	5.00%b	*$2.16*
		Investment Port–Government[1]/Kemper	—*	4.7	9.3	5,189	–15	5.00b	*1.97*
		Investment Port–High Yield/Kemper	—*	–7.2	13.8	707	–17	5.00b	*2.11*
F	A+	**Kemper Diversified Income Fund/Kemper**	9.2%	2.0	14.4	238	–28	4.50	0.96
		Kemper High Income Trust/closed-end	—*	–11.6	15.8	166	–21	NA	1.93
B	A	**Kemper High Yield Fund/Kemper**	13.0	–3.8	14.6	1,454	–9	4.50	0.71
B	C	**Kemper Income & Capital Preserv/Kemper**	10.9	4.5	10.4	414	12	4.50	0.66
		Kemper Intermediate Govt/closed-end	—*	5.6	11.1	288	–4	NA	0.95
		Kemper Multi-Market Income/closed-end	—*	2.1	14.1	196	–11	NA	0.94
C	D	**Kemper US Government Secs/Kemper**	10.2	6.5	9.9	4,571	5	4.50	0.48
B	D	**Keystone Custodian B-1/Keystone**	10.2	5.8	8.5	455	7	4.00b	*1.93*
C	C	**Keystone Custodian B-2/Keystone**	10.4	–0.2	11.2	915	–7	4.00b	*1.82*
D	A	**Keystone Custodian B-4/Keystone**	8.7	–10.4	17.4	802	–35	4.00b	*1.98*
		Kidder, Peabody Government Inc/Kidder	—*	7.6	8.2	102	–11	4.00	*1.61*
		CJ Lawrence Total Return US Treas[2]/Brown	—*	4.6	9.2	322	77	4.45	*0.88*
C	D	**Lexington GNMA Income Fund/Lexington**	9.3	8.1	8.7	97	2	none	1.03
		Liberty Advantage US Govt Secs/Liberty	—*	8.4	9.5	303	34	4.50	1.10p
C	A+	**Lincoln National Income[3]/closed-end**	13.9	4.7	8.3	68	–3	NA	0.96
		Lomas Mortgage Securities Fund/closed-end	—*	9.8	10.8	327	–1	NA	1.10
D	A	**Lord Abbett Bond-Debenture/Lord Abbett**	10.7	0.6	12.0	594	–17	4.75	*0.59*
C	B	**Lord Abbett US Govt Secs/Lord Abbett**	11.8	7.2	10.6	1,386	20	4.75	*0.88*
		Lutheran Brotherhood High Yield/Lutheran	—*	–8.6	14.0	155	4	5.00	1.19
A	C	**Lutheran Brotherhood Income/Lutheran**	12.7	4.5	9.7	733	–1	5.00	1.02
		MainStay–Government Plus[4]/NYLife	—*	3.7	9.7	475	–7	5.00b	*1.85*
		MainStay–Hi Yield Corp Bond[5]/NYLife	—*	–8.6	15.3	202	14	5.00b	*2.12*
A	D	**Mass Financial Bond Fund/Mass Finl**	11.3	7.7	9.0	308	–3	7.25	0.75
D	A	**Mass Financial High Inc–Series I/Mass Finl**	10.5	–9.6	16.2	538	–34	7.25	0.87
D	A+	**MassMutual Corporate Investors/closed-end**	15.0	1.1	8.6	124	–9	NA	1.39
D	A	**Merrill Lynch Corp–High Income#/ML Funds**	11.0	4.1	13.6	706	–11	4.00	0.68
B	•D	**Merrill Lynch Corp–High Quality#/ML Funds**	—*	6.5	8.7	492	47	4.00	0.61
C	•C	**Merrill Lynch Corp–Intermed/ML Funds**	—*	7.4	8.8	88	2	2.00	0.71
		Merrill Lynch Federal Securities/ML Funds	—*	9.3	9.1	2,425	–15	4.00	*0.74*
		Merrill Lynch Retire/Income/ML Funds	—*	8.7	8.3	1,647	–5	4.00b	*1.40*
		MetLife-State Street Govt Inc/MetLife	—*	6.9	8.5	983	–23	none	*1.03*
		MetLife-State Street High Income/MetLife	—*	–5.8	14.9	181	69	4.50	*1.25p*
		MFS Government Guar Secs/Mass Finl	—*	6.1	8.6	327	–8	4.75	*1.29*

d rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. #Fund has two share classes, one with 12b-1 fee and back-end load he other with front-end load only. Results shown are for front-loaded shares. Assets are for entire fund. *Expense ratio is in italics if the fund has a shareholder-paid 1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of partial absorption of expenses by fund sor. NA: Not applicable or not available. [1]Formerly Investment Portfolio–Government Plus. [2]Assets include sister fund Flag Investors Total Return. [3]Formerly oln National Direct Placement. [4]Formerly MacKay-Shields MainStay–Government Plus. [5]Formerly MacKay-Shields MainStay–High Yield Corp Bond.

Distributor table, page 248. Rules, page 176.

Annual Fund Ratings/Taxable Bond

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 6/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Annu expen per $1
		Merrill Lynch corporate/govt bond index	11.5%	6.9%	8.8%				
		Forbes taxable bond fund composite	10.9%	3.0%	10.5%				$1.06
		MFS Government Income Plus[1]/Mass Finl	—*	4.3%	7.1%	$1,207	–9%	4.75%	*$1.39*
		MFS Government Markets Inc/closed-end	—*	9.5	9.0	826	–3	NA	1.08
		MFS Govt Premium Account/Mass Finl	—*	4.4	7.2	396	100	3.75	*1.43*
		MFS Intermediate Income/closed-end	—*	9.2	8.2	1,715	–3	NA	1.04
		MFS Lifetime Govt Inc Plus/Mass Finl	—*	4.1	6.5	3,437	1	6.00b	*1.95*
		MFS Lifetime High Income Trust/Mass Finl	—*	–11.4	13.9	126	–16	6.00b	*2.37*
		MFS Multimarket Income Trust/closed-end	—*	9.1	11.0	996	–5	NA	1.19
		MFS Multimarket Total Return/closed-end	—*	4.0	9.4	134	–6	NA	1.40
D	•B	Midwest Income–Intermed Govt/MGF	—*	5.3	7.6	38	–14	1.00	*1.04*
B	D	Montgomery Street Income Secs/closed-end	11.0%	5.8	10.1	144	–5	NA	0.56
D	A	Mutual of Omaha America/Mutual of Omaha	9.8	6.3	8.2	52	1	4.75	*1.01*
A	C	Mutual of Omaha Interest Shares/closed-end	11.7	6.7	8.9	95	–1	NA	0.85
F	D	National Bond Fund/National Secs	6.3	–14.5	16.0	375	–44	4.75	1.05
		National Federal Securities/National Secs	—*	6.9	8.6	430	–26	4.75	0.89
C	D	Nationwide Bond Fund/Nationwide	9.7	6.3	9.8	36	0	7.50	0.68
		Neuberger & Berman Ltd Mat Bond/Neuberger	—*	8.2	8.2	117	12	none	0.65
		New America High Income/closed-end	—*	–26.8	22.5	230	–37	NA	1.31
C	C	New England Bond Income/New England	10.2	6.3	8.2	80	11	4.50	*1.18*
		New England Government Secs/New England	—*	4.0	7.9	178	–1	4.50	*1.21*
C	C	Nicholas Income Fund/Nicholas	10.1	2.0	11.3	70	–13	none	0.81
C	C	Northeast Investors Trust/Northeast Inv	10.6	–5.5	15.4	298	–26	none	0.80
D	B	Oppenheimer High Yield Fund/Oppenheimer	9.8	0.8	14.1	651	–25	6.75	0.93
		Oppenheimer Multi Sector Inc/closed-end	—*	6.6	10.5	293	–4	NA	1.03
		Oppenheimer US Government/Oppenheimer	—*	6.4	9.6	266	15	4.75	*1.16*
A	C	Pacific American Income Shares/closed-end	12.3	7.2	10.0	100	–3	NA	0.88
		PaineWebber Fixed Inc–GNMA/PaineWebber	—*	8.3	8.7	851	–18	4.25	0.72
		PaineWebber Fixed Inc–Hi Yld/PaineWebber	—*	–6.0	15.2	248	–42	4.25	0.71
		PaineWebber Fixed Inc–Inv Gr/PaineWebber	—*	7.3	8.9	243	–14	4.25	0.65
		PaineWebber Master Income/PaineWebber	—*	2.2	8.3	173	–23	5.00b	*1.91*
		Parkstone Bond Fund/Winsbury	—*	6.9	7.8	316	155	4.50	0.84
		Parkstone Intermediate Govt Oblig/Winsbury	—*	7.0	8.0	100	20	4.50	0.81
		Permanent Port–Treasury Bill/Permanent	—*	7.6	none	124	173	none	*0.54*
D	•B	Phoenix High Yield Fund/Phoenix	—*	–4.8	12.2	104	–34	4.75	0.90
		Pilgrim GNMA Fund/Pilgrim	—*	6.5	9.5	122	–16	4.75	*1.11*
D	A	Pilgrim High Yield Trust/Pilgrim	9.5	–3.6	15.0	30	–15	4.75	*1.86*
		Pilgrim Prime Rate Trust[2]/closed-end	—*	10.4	10.1	1,130	135	NA	1.46

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Distributor table, page 248. Rules, page 176.

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Annual Fund Ratings/Taxable Bond

Performance in UP markets	Performance in DOWN markets	Fund/distributor	Total return: Annual average 6/80 to 6/90	Total return: Last 12 months	Yield	Assets 6/30/90 ($mil)	Assets % change '90 vs '89	Maximum sales charge	An exp per
		Merrill Lynch corporate/govt bond index	11.5%	6.9%	8.8%				
		Forbes taxable bond fund composite	10.9%	3.0%	10.5%				$1.
C	B	Pioneer Bond Fund/Pioneer	10.4%	6.2%	9.0%	$74	15%	4.50%	$0.
		T Rowe Price GNMA Fund/Price	—*	8.1	9.1	405	13	none	0.
		T Rowe Price High Yield Fund/Price	—*	–7.3	14.7	693	–45	none	0.
D	B	T Rowe Price New Income Fund/Price	10.2	6.9	8.7	1,008	4	none	0.
		T Rowe Price Short-Term Bond/Price	—*	7.6	8.2	209	–3	none	0.
		Prospect Street High Income Port/closed-end	—*	–31.6	24.0	153	–22	NA	2.
A+	D	ProvidentMut US Govt Fund for Inc/Provident	21.7	5.5	7.8	55	329	4.50	*1.*
•C	•C	Pru-Bache GNMA Fund#/Pru-Bache	—*	6.1	7.7	220	–2	4.50	*1.*
		Pru-Bache Govt Plus#/Pru-Bache	—*	6.1	7.6	3,585	–6	4.50	*0.9*
•C	•B	Pru-Bache Govt Secs–Intermediate/Pru-Bache	—*	5.7	8.5	343	–20	none	*0.8*
D	B	Pru-Bache High Yield Fund#/Pru-Bache	9.5	–7.1	14.0	2,092	–27	4.50	*0.8*
		Pru-Bache US Government[1]#/Pru-Bache	—*	3.5	7.1	179	3	4.50	*0.9*
		Prudential Intermediate Income/closed-end	—*	5.3	8.1	436	–6	NA	1.0
		Prudential Strategic Income/closed-end	—*	–1.8	10.9	521	–13	NA	1.0
		Putnam Diversified Income Trust/Putnam	—*	3.9	10.1	126	42	4.75	*1.2*
		Putnam GNMA Plus Trust/Putnam	—*	7.6	8.3	866	–19	4.75	*1.0*
		Putnam High Income Govt/Putnam	—*	5.2	8.3	6,743	–19	6.75	*0.9*
C	B	Putnam High Yield Trust/Putnam	10.8	–6.6	16.0	1,739	–30	6.75	*0.7*
		Putnam High Yield Trust II/Putnam	—*	–9.0	16.0	318	–27	6.75	*1.2*
B	C	Putnam Income Fund/Putnam	11.6	4.7	10.2	431	13	4.75	*0.8*
		Putnam Intermediate Govt Inc/closed-end	—*	8.5	8.0	557	0	NA	1.0
		Putnam Master Income Trust/closed-end	—*	1.3	10.3	454	–10	NA	1.0
		Putnam Master Intermediate Inc/closed-end	—*	–1.1	11.1	317	–12	NA	1.0
		Putnam Premier Income Trust/closed-end	—*	1.9	9.6	1,150	–10	NA	0.9
		Putnam US Govt Guaranteed Secs/Putnam	—*	8.1	9.9	1,529	11	4.75	*0.6*
		RAC Income Fund/closed-end	—*	10.6	11.4	112	0	NA	1.2
•D	•D	RPF of America–Bond Fund/Venture	—*	5.2	9.7	58	–12	5.00b	*2.4*
		Scudder GNMA Fund/Scudder	—*	8.1	8.7	252	–1	none	1.0
B	C	Scudder Income Fund/Scudder	11.0	7.1	8.0	276	5	none	0.9
		Scudder Short Term Bond Fund/Scudder	—*	9.3	8.9	188	NM	none	0.3
D	A	Security Income–Corporate Bond/Security	10.8	6.5	9.6	57	3	4.75	*1.0*
C	C	Sentinel Bond Fund/Equity	10.5	6.3	8.8	35	25	5.25	0.8
D	•A	SLH High Yield Fund/Shearson	—*	–8.0	17.0	280	–45	5.00	0.79
		SLH Income–High Income/Shearson	—*	–9.8	15.4	321	–47	5.00b	*1.65*
		SLH Income–Mortgage/Shearson	—*	7.3	8.4	645	880	5.00b	*1.62*
		SLH Investment–Govt Secs/Shearson	—*	6.5	8.3	1,691	–29	5.00b	*1.48*
		SLH Investment–High Grade/Shearson	—*	4.3	8.2	440	–13	5.00b	*1.57*

•Fund rated for two periods only, maximum allowable grade A. *Fund not in operation for full period. #Fund has two share classes, one with large 12b-1 fee and ba end load and the other with small 12b-1 fee and front-end load. Results shown are for front-loaded shares. Assets are for entire fund. *Expense ratio is in italics if the fund h a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of partial absorption expenses by fund sponsor. NA: Not applicable or not available. NM: Not meaningful [1]Formerly Pru-Bache Government Plus II.

Distributor table, page 248. Rules, page 176.

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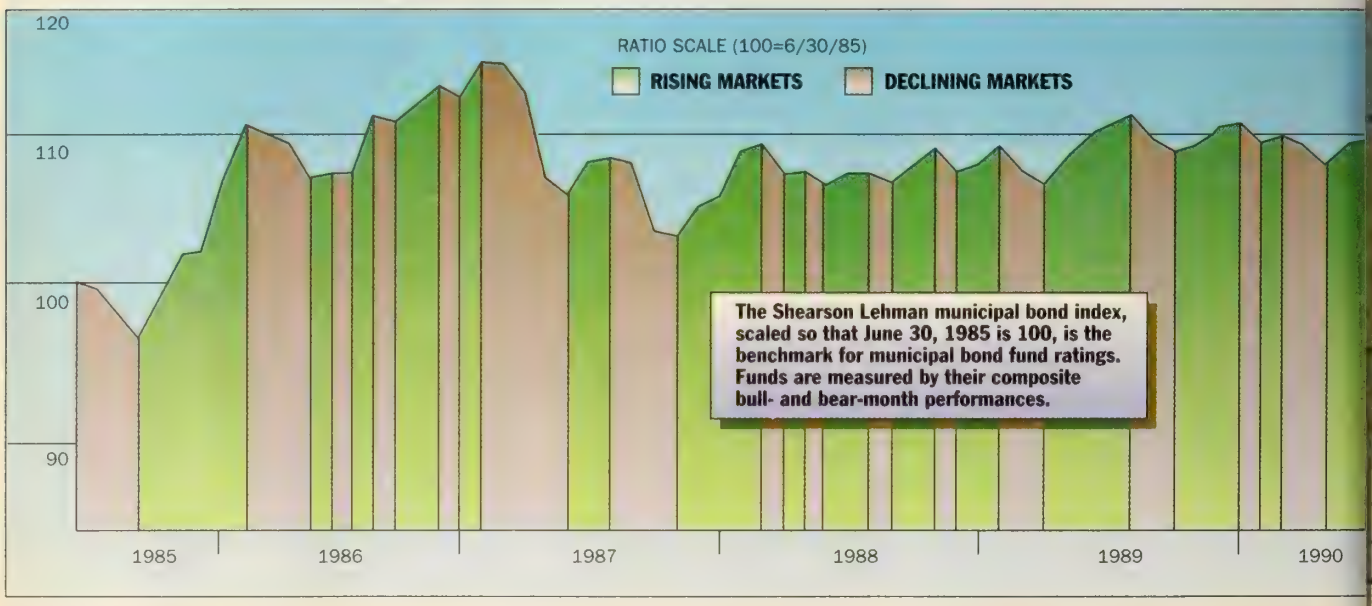
rformance in DOWN markets: 1	P	Fund/distributor	Total return: Annual average 6/80 to 6/90	Total return: Last 12 months	Yield	Assets: 6/30/90 ($mil)	Assets: % change '90 vs '89	Maximum sales charge	Annual expenses per $100
		Merrill Lynch corporate/govt bond index	**11.5%**	**6.9%**	**8.8%**				
		Forbes taxable bond fund composite	**10.9%**	**3.0%**	**10.5%**				**$1.06**
		SLH Managed Governments/Shearson	—*	8.7%	9.1%	$514	–17%	5.00%	$0.83
		Smith Barney–US Government/Smith Barney	—*	8.4	9.3	336	2	4.00	0.40
C	B	**State Mutual Securities Trust/closed-end**	11.3%	7.2	10.2	89	–2	NA	0.80
C	D	**SteinRoe Intermediate Bond/Stein Roe**	10.1	5.4	8.5	161	–2	none	0.74
		Strong Advantage Fund/Strong	—*	6.6	9.4	138	165	none	1.22
		Strong Income Fund/Strong	—*	–11.0	13.8	126	–50	none	1.38
		Thomson McKinnon–Income/Thomson	—*	2.8	10.9	394	–37	5.00b	*1.60*
		Thomson McKinnon–US Govt/Thomson	—*	5.2	8.9	479	–24	5.00b	*1.70*
		Transamerica Government Secs[1]/Transamerica	—*	4.8	11.1	841	–25	4.75	*1.09*
A	D	**Transamerica Income Shares/closed-end**	13.2	7.3	9.6	119	–2	NA	0.71
B	•D	**Transamerica Inv Quality Bond/Transamerica**	—*	4.9	10.1	86	–20	4.75	*1.18*
D	•A	**20th Century US Governments/20th Century**	—*	5.8	8.7	435	2	none	1.00
		UMB Bond Fund/Jones & Babson	—*	8.1	7.5	34	19	none	0.88
A	D	**United Bond Fund/Waddell**	11.6	2.8	9.1	422	14	8.50	0.64
		United Government Securities/Waddell	—*	6.1	8.5	105	–6	4.25	0.78
D	B	**United High Income Fund/Waddell**	9.0	–13.9	16.4	882	–29	†	0.74
		United High Income Fund II/Waddell	—*	–7.6	12.4	278	–14	8.50	0.86
A	•C	**USAA Mutual–Income Fund/USAA**	—*	7.8	9.0	418	31	none	0.57
B	C	**USLife Income Fund/closed-end**	10.9	–1.1	10.7	47	–11	NA	1.37
B	•C	**Value Line US Government Secs/Value Line**	—*	8.2	8.9	257	4	none	0.67
		Van Kampen Merritt Intermed Hi Inc/closed-end	—*	–12.8	18.1	176	–15	NA	1.56
		Van Kampen Merritt Hi Yield/Van Kampen	—*	–10.8	16.1	220	–38	4.90	*1.28*
		Van Kampen Merritt Ltd High Inc/closed-end	—*	–12.1	17.0	128	–15	NA	1.57
		Van Kampen Merritt US Govt/Van Kampen	—*	8.7	9.8	3,363	–8	4.90	*0.65*
		Vanguard Bond Market Fund/Vanguard	—*	7.6	8.9	171	72	none[2]	0.24
B	•C	**Vanguard Fixed Income–GNMA/Vanguard**	—*	8.9	9.1	2,318	16	none	0.31
C	B	**Vanguard Fixed Income–High Yld/Vanguard**	11.3	–1.0	13.3	905	–29	none	0.38
B	C	**Vanguard Fixed Income–Inv Gr/Vanguard**	11.3	6.0	9.0	1,082	31	none	0.34
C	•A	**Vanguard Fixed Income–S-T/Vanguard**	—*	8.4	8.6	668	27	none	0.28
		Vanguard Fixed Inc–S-T Govt/Vanguard	—*	7.9	8.3	260	46	none	0.28
		Vanguard Fixed Inc–US Treas/Vanguard	—*	3.3	8.1	528	71	none	0.28
A	C	**Vanguard Preferred Stock Fund/Vanguard**	11.8	8.2	8.9	61	–16	none	0.66
F	A+	**Venture Income (+) Plus/Venture**	8.8	–10.1	19.9	29	–45	4.75	*1.52*
A+	D	**Vestaur Securities/closed-end**	13.0	5.2	8.8	88	–4	NA	1.00
		WPG Government Securities Fund/Weiss	—*	7.7	8.3	105	26	none	0.75
		Zenix Income Fund[3]/closed-end	—*	–13.5	17.3	135	–20	NA	2.32
		Zweig Series–Govt Secs[4]/Zweig	—*	1.6	8.1	111	–25	4.75	*1.34*

d rated for two periods only; maximum allowable grade A. *Fund not in operation for full period. †Closed to new investors. *Expense ratio is in italics if the fund has reholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* b: Includes back-end load that reverts to distributor. NA: Not applicable or not ible. [1]Formerly Transamerica Bond–US Government High Yield. [2]Annual $10 maintenance fee. [3]Formerly Zenith Income Fund. [4]Formerly Drexel Series–rnment Securities.

Distributor table, page 248. Rules, page 176.

Municipal bond funds

We rate tax-exempt bond funds over the five-year period from June 30, 1985 to June 30, 1990. Our benchmark is the Shearson Lehman municipal bond index. Each month in the period is pegged as bearish or bullish, according to the performance of the Shearson index. For each rated fund a composite bull market performance is calculated, and the funds are awarded grades on the curve. Ditto for the down market calculati Some adjustment is made to compensate one-state munici bond funds for their handicap in buying only local bonds. general, a short-term fund can be expected to get an A or B down markets and a D or F in up markets. The reverse is t for long-term funds.



Performance in UP —markets—	Performance in DOWN —markets—	Fund/distributor	Date started	Latest 12 months total return	Latest 12 months return from income dividends	Total assets 6/30/90 ($mil)	Total assets % change '90 vs '89	Maximum sales charge	Annu expens per $1
		Shearson Lehman municipal bond index		11.4%	7.8%				
		Forbes municipal bond composite		5.5%	6.8%				$0.7
C	C	AARP Insured T-F Inc–Genl Bond/Scudder	11/84	5.2%	6.3%	$727	47%	none	$0.8
		Alliance Muni Income–CA/Alliance	12/86	6.6	7.1	135	98	4.50%	*0.5*
		Alliance Muni Income–Ins CA/Alliance	11/85	5.1	6.5	57	24	4.50	*0.6*
		Alliance Muni Income–Ins Natl/Alliance	12/86	5.5	6.6	116	7	4.50	*0.8*
		Alliance Muni Income–Natl/Alliance	12/86	6.5	7.2	182	62	4.50	*0.5*
		Alliance Muni Income–NY/Alliance	12/86	6.4	7.2	115	97	4.50	*0.5*
		Allstate Muni Income/closed-end	9/87	5.5	7.7	332	1	NA	0.7
		Allstate Muni Income II/closed-end	5/88	6.4	7.5	283	0	NA	0.8
		Allstate Muni Income Oppor/closed-end	9/88	8.7	8.9	199	3	NA	1.1
		Allstate Muni Income Oppor II/closed-end	6/89	7.6	6.7	192	3	NA	1.0
		Allstate Muni Premium Income/closed-end	1/89	5.9	7.4	368	47	NA	1.0
A	D	American Capital Muni Bond/American Cap	11/76	5.5	7.0	246	4	4.75	*0.7*

Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force. p: Net of partial absorption of expenses by fu sponsor. NA: Not applicable or not available.

Distributor table, page 248. Rules, page 176.

rformance in UP	in DOWN —markets—	Fund/distributor	Date started	Latest 12 months total return	Latest 12 months return from income dividends	Total assets 6/30/90 ($mil)	Total assets % change '90 vs '89	Maximum sales charge	Annual expenses per $100
		Shearson Lehman municipal bond index		11.4%	7.8%				
		Forbes municipal bond composite		5.5%	6.8%				$0.78
		American Capital T-E–Hi Yld/American Cap	1/86	6.4%	8.2%	$225	–4%	4.75%	*$0.85p*
		American Funds Tax-Ex I–Md/American Funds	8/86	5.3	5.9	30	3	4.75	*0.98p*
		American Funds Tax-Ex I–Va/American Funds	8/86	5.6	6.0	33	12	4.75	*0.98p*
		American Funds T-E II–Calif/American Funds	10/86	4.6	5.9	83	27	4.75	*1.00*
		AMEV Tax-Free Fund–Minnesota/AMEV	6/86	5.3	6.8	26	29	4.50	0.98
		Benham Calif Tax-Free–High Yield/Benham	1/87	6.8	7.2	48	62	none	0.01p
		Benham Calif Tax-Free–Insured/Benham	1/87	4.5	6.3	58	41	none	0.65
D	A	Benham Calif Tax-Free–Intermed/Benham	11/83	6.6	6.1	189	11	none	0.60
B	D	Benham Calif Tax-Free–L-T/Benham	11/83	5.3	6.7	202	14	none	0.58
		Bernstein Diversified Muni/Bernstein	1/89	5.7	5.9	166	78	none	0.79
		Bernstein New York Muni/Bernstein	1/89	5.4	6.0	146	60	none	0.78
D	B	California Tax-Exempt Bonds/National Secs	5/83	5.9	7.0	110	2	4.75	0.66
		California Tax-Free Income/California Inv	12/85	6.6	7.3	86	43	none	0.60p
F	A+	Calvert Tax-Free Reserves–Limited/Calvert	4/81	6.5	6.3	131	–1	2.00	0.78
		Churchill T-F Fund of Kentucky/Aquila	5/87	6.7	6.8	50	96	4.00	0.08p
A+	F	Cigna Municipal Bond Fund/Cigna Mutual	3/77	5.1	7.0	259	1	5.00	*0.89*
		Colonial California Tax-Exempt/Colonial	6/86	5.7	7.0	206	37	4.75	0.70p
		Colonial High Income Municipal/closed-end	2/89	5.9	8.5	279	–2	NA	0.90
		Colonial Investment Grade Muni/closed-end	5/89	7.4	8.7	126	–2	NA	0.83p
		Colonial Massachusetts Tax-Ex/Colonial	4/87	5.5	7.4	60	104	4.75	*0.45p*
		Colonial Municipal Income Trust/closed-end	3/87	2.7	8.8	223	–5	NA	0.87
		Colonial New York Tax-Exempt/Colonial	9/86	4.8	6.7	26	5	4.75	1.46p
		Colonial Ohio Tax-Exempt Trust/Colonial	9/86	5.5	6.8	32	16	4.75	1.27p
D	A	Colonial Tax-Exempt Fund[1]/Colonial	11/78	5.6	7.7	1,716	14	4.75	*1.03*
		Colonial Tax-Exempt Insured/Colonial	12/85	5.7	6.7	131	11	4.75	*1.11*
C	C	Columbia Municipal Bond Fund/Columbia	7/84	5.0	6.5	192	24	none	0.60
D	B	Composite Tax-Exempt Bond/Murphey Favre	1/77	4.9	6.1	106	5	4.00	*0.80*
A	D	Dean Witter Calif Tax-Free Inc/Dean Witter	7/84	5.4	5.9	629	27	5.00b	*1.32*
B	D	Dean Witter NY Tax-Free Inc/Dean Witter	4/85	4.0	6.2	153	10	5.00b	*1.37*
B	B	Dean Witter Tax-Exempt Secs/Dean Witter	3/80	5.2	7.3	1,026	6	4.00	0.51
C	A	Delaware Group Tax-Free–USA/Delaware	1/84	3.6	7.3	614	20	4.75	0.75
C	B	DMC Tax-Free Income Trust–PA/Delaware	3/77	5.1	7.1	635	–6	4.75	0.73
		Dreyfus California Municipal Inc/closed-end	10/88	5.8	6.2	41	0	NA	0.98
D	B	Dreyfus California Tax-Ex Bond/Dreyfus	7/83	5.7	7.1	1,512	7	none	0.70
C	C	Dreyfus Insured Tax-Ex Bond/Dreyfus	6/85	5.3	6.6	198	4	none	*0.99*
D	A	Dreyfus Intermediate Tax-Ex Bond/Dreyfus	8/83	6.3	7.0	1,119	4	none	0.70p

ıse ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force. b: Includes back-end load that reverts to ıbutor. p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or not available. [1]Formerly Colonial Tax-Exempt–High Yield Fund

Distributor table, page 248. Rules, page 176.

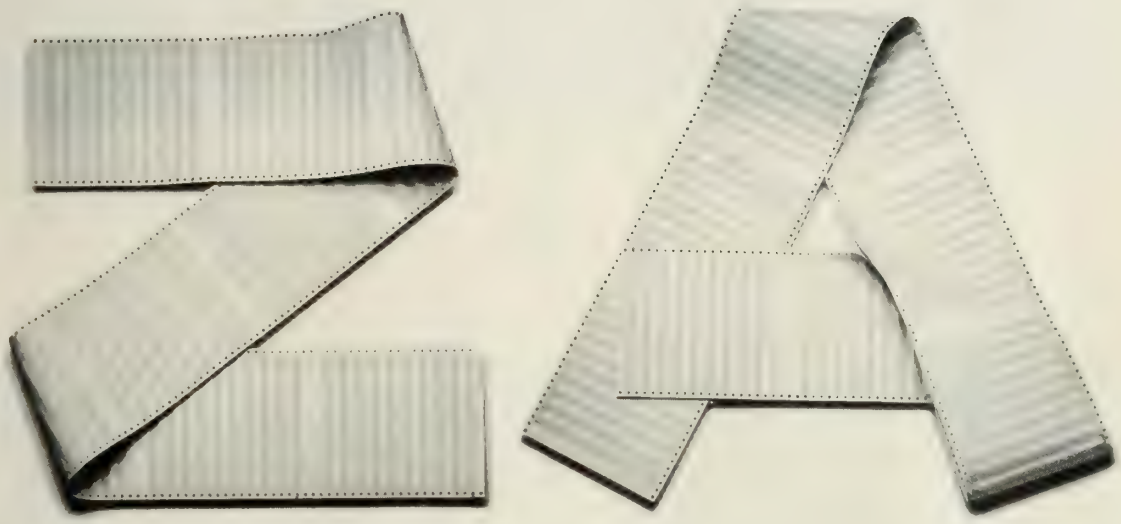
Annual Fund Ratings

Performance in UP —markets—	Performance in DOWN —markets—	Fund/distributor	Date started	Latest 12 months total return	Latest 12 months return from income dividends	Total assets 6/30/90 ($mil)	Total assets % change '90 vs '89	Maximum sales charge	Anni expen per $
		Shearson Lehman municipal bond index		11.4%	7.8%				
		Forbes municipal bond composite		5.5%	6.8%				$0.7
D	C	Dreyfus Mass Tax-Ex Bond/Dreyfus	6/85	5.5%	7.0%	$110	10%	none	$0.
		Dreyfus Municipal Income/closed-end	10/88	5.6	6.8	178	0	NA	0.
		Dreyfus NJ Tax-Exempt Bond/Dreyfus	11/87	6.3	6.7	302	36	none	0.
		Dreyfus NY Insured T-E Bond/Dreyfus	2/87	4.2	6.7	84	47	none	0.
		Dreyfus NY Municipal Income/closed-end	10/88	4.9	6.4	33	0	NA	1.
C	C	Dreyfus NY Tax-Exempt Bond/Dreyfus	7/83	5.1	7.1	1,690	1	none	0.
		Dreyfus NY T-E Intermed Bond/Dreyfus	6/87	5.7	6.7	95	52	none	0.
		Dreyfus Strategic Municipals/closed-end	9/87	6.4	7.6	485	2	NA	0.
C	B	Dreyfus Tax-Exempt Bond Fund/Dreyfus	10/76	5.9	7.2	3,775	4	none	0.
		Dupree–Kentucky T-F Income/Dupree	7/79	7.1	6.8	88	20	none	0.
		Eaton Vance California Munis/Eaton Vance	12/85	4.7	6.7	279	11	6.00%b	1.
		Eaton Vance High Yield Munis/Eaton Vance	12/85	3.3	7.8	1,068	11	6.00b	1.
B	B	Federated Tax-Free Income Fund/Federated	10/76	5.3	6.8	507	8	4.50	0.
C	C	Fidelity Calif Tax-Free–High Yield/Fidelity	7/84	5.5	6.7	522	–2	none	0.
		Fidelity Calif Tax-Free–Insured/Fidelity	9/86	4.6	6.4	92	20	none	0.
		Fidelity Conn Muni–High Yield[1]/Fidelity	10/87	5.2	6.4	230	62	none	0.
D	B	Fidelity Mass Tax-Free–High Yield/Fidelity	11/83	5.9	7.2	713	10	none	0.
		Fidelity NJ Tax-Free Hi Yield/Fidelity	11/88	5.4	6.5	196	48	none	0.
C	C	Fidelity NY Tax-Free–High Yield/Fidelity	7/84	5.0	6.9	390	0	none	0.
		Fidelity NY Tax-Free–Insured/Fidelity	10/85	5.2	6.5	216	15	none	0.
		Fidelity Spartan Penn Muni–High Yld[2]/Fidelity	8/86	5.3	7.0	123	44	none	0.
		Fidelity State T-F–Michigan High Yld[3]/Fidelity	11/85	4.4	6.9	264	29	none	0.
		Fidelity State T-F–Minnesota High Yld[4]/Fidelity	11/85	5.4	6.7	151	31	none	0.
		Fidelity State T-F–Ohio High Yld[5]/Fidelity	11/85	5.3	6.8	219	20	none	0.
		Fidelity Tax-Free–Aggressive/Fidelity	9/85	5.7	7.6	546	3	none§	0.
B	C	Fidelity Tax-Free–High Yield/Fidelity	12/77	6.0	7.0	1,716	0	none	0.
		Fidelity Tax-Free–Insured/Fidelity	11/85	5.2	6.5	186	14	none	0.
D	B	Fidelity Tax-Free–Ltd Term Munis/Fidelity	4/77	5.5	6.6	431	1	none	0.
B	C	Fidelity Tax-Free–Municipal Bond/Fidelity	8/76	5.6	6.8	1,039	2	none	0.
A+	F	Financial Tax-Free Income Shs/Financial Prog	8/81	5.1	6.6	179	25	none	0.7
D	A	First Investors Insured T-E/First Inv	8/77	5.1	7.2	1,109	7	6.90	1.
		First Investors M-S Ins T-F–NJ/First Inv	9/88	5.1	6.6	25	170	6.90	0.
D	B	First Investors NY Ins Tax-Free/First Inv	6/84	4.0	6.5	155	12	6.90	1.
		Flagship Tax-Ex–Arizona Double/Flagship	11/86	4.9	6.6	32	7	4.20	0.
		Flagship Tax-Ex–Conn Double/Flagship	7/87	5.0	6.6	76	45	4.20	0.
		Flagship Tax-Ex–Georgia Double/Flagship	4/86	4.4	6.7	36	0	4.20	0.

§Distributor may impose redemption fee whose proceeds revert to the fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidd load) pending or in force.* b: Includes back-end load that reverts to distributor. p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or n available. [1]Formerly Fidelity Connecticut Tax-Free Fund. [2]Formerly Fidelity Pennsylvania Tax-Free–High Yield fund. [3]Formerly Fidelity State Tax-Free Michigan. [4]Fo merly Fidelity State Tax-Free Minnesota. [5]Formerly Fidelity State Tax-Free Ohio.

Distributor table, page 248. Rules, page 176.

Who Covers Business Insurance From A to Z?



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Annual Fund Ratings

Performance in UP —markets—	Performance in DOWN —markets—	Fund/distributor	Date started	Latest 12 months total return	Latest 12 months return from income dividends	Total assets 6/30/90 ($mil)	Total assets % change '90 vs '89	Maximum sales charge	An expe per
		Shearson Lehman municipal bond index		11.4%	7.8%				
		Forbes municipal bond composite		5.5%	6.8%				$0
		Flagship Tax-Ex–Kentucky Triple/Flagship	5/87	6.0%	6.8%	$113	53%	4.20%	$
A	D	Flagship Tax-Ex–Mich Triple/Flagship	6/85	5.4	6.6	106	21	4.20	
		Flagship Tax-Ex–NC Triple/Flagship	4/86	4.9	6.4	96	9	4.20	
B	C	Flagship Tax-Ex–Ohio Double/Flagship	6/85	5.3	6.6	235	17	4.20	
		Flagship Tax-Ex–Penn Triple/Flagship	11/86	4.3	6.7	36	1	4.20	
		Flagship Tax-Ex–Tenn Double/Flagship	11/87	4.8	6.7	75	17	4.20	
		Flagship Tax-Ex–Va Double/Flagship	4/86	5.8	6.6	43	12	4.20	
		Franklin Alabama Tax-Free Income/Franklin	9/87	5.6	7.2	31	152	4.00	
		Franklin Arizona Tax-Free Income/Franklin	9/87	5.9	7.3	273	132	4.00	
		Franklin Calif Insured T-F Income/Franklin	9/85	5.9	6.6	307	24	4.00	
D	A	Franklin Calif Tax-Free Income/Franklin	2/77	6.5	7.4	10,920	13	4.00	
		Franklin Colorado Tax-Free Income/Franklin	9/87	6.2	7.1	48	133	4.00	
		Franklin Conn Tax-Free Income/Franklin	10/88	5.7	6.6	31	214	4.00	
C	C	Franklin Federal Tax-Free Income/Franklin	9/83	5.9	7.5	3,995	6	4.00	
		Franklin Florida Tax-Free Income/Franklin	9/87	5.9	7.6	425	307	4.00	
		Franklin High Yield Tax-Free Income/Franklin	3/86	6.2	8.3	1,652	45	4.00	
A	D	Franklin Insured Tax-Free Income/Franklin	4/85	5.6	7.2	758	20	4.00	
C	D	Franklin Mass Insured T-F Income/Franklin	4/85	4.7	6.7	133	13	4.00	
B	D	Franklin Mich Insured T-F Income/Franklin	4/85	5.5	6.6	458	13	4.00	
B	D	Franklin Minn Insured T-F Income/Franklin	4/85	5.8	6.9	252	22	4.00	
		Franklin Missouri Tax Free Income/Franklin	9/87	6.3	7.0	36	184	4.00'	
		Franklin New Jersey Tax-Free Income/Franklin	5/88	5.5	7.3	146	216	4.00	
C	B	Franklin New York Tax-Free Income/Franklin	9/82	5.5	7.3	2,945	4	4.00	
		Franklin NC Tax-Free Income/Franklin	9/87	6.2	6.7	33	96	4.00	
B	D	Franklin Ohio Insured T-F Income/Franklin	4/85	5.6	6.6	235	10	4.00	
		Franklin Oregon Tax-Free Income/Franklin	9/87	5.1	6.7	90	143	4.00	
		Franklin Pennsylvania T-F Income/Franklin	12/86	5.3	7.5	220	106	4.00	
D	B	Franklin PR Tax-Free Income/Franklin	4/85	5.8	6.7	85	–3	4.00	
		Franklin Virginia Tax-Free Income/Franklin	9/87	6.1	7.1	51	138	4.00	
		Freedom Inv–Managed Tax-Ex/Freedom	4/87	5.3	6.8	132	44	3.00b	
D	A	General NY Municipal Bond/Dreyfus	11/84	6.2	6.7	87	118	none	
A	D	General Tax-Exempt Bond Fund/Dreyfus	3/84	6.1	7.7	186	405	none	
A	C	John Hancock Tax-Exempt Income/Hancock	1/77	5.2	6.7	380	1	4.50	
D	A	Hawaiian Tax-Free Trust/Aquila	2/85	5.6	6.8	349	26	4.00	
		IDS California Tax-Exempt Fund/IDS	8/86	4.9	6.5	142	49	5.00	
B	B	IDS High Yield Tax-Exempt Fund/IDS	5/79	5.3	7.4	4,611	5	5.00	

Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force. b: Includes back-end load that revert distributor. p: Net of partial absorption of expenses by fund sponsor.

Distributor table, page 248. Rules, page 176.

formance in DOWN markets—	Fund/distributor	Date started	Latest 12 months total return	Latest 12 months return from income dividends	Total assets 6/30/90 ($mil)	Total assets % change '90 vs '89	Maximum sales charge	Annual expenses per $100
	Shearson Lehman municipal bond index		11.4%	7.8%				
	Forbes municipal bond composite		5.5%	6.8%				$0.78
	IDS Insured Tax-Exempt Fund/IDS	8/86	5.8%	6.4%	$133	68%	5.00%	$0.68
	IDS Michigan Tax-Exempt Fund/IDS	7/87	4.1	6.4	29	84	5.00	0.72
	IDS Minnesota Tax-Exempt Fund/IDS	8/86	4.6	6.6	181	49	5.00	0.64
	IDS New York Tax-Exempt Fund/IDS	8/86	5.1	6.5	68	40	5.00	0.64
D	IDS Tax-Exempt Bond Fund/IDS	11/76	10.8	6.7	1,061	6	5.00	0.61
C	Inv Trust of Boston–Mass T-F/Inv Trust	4/84	4.2	6.6	54	1	4.25	*1.41p*
B	Kemper California Tax-Free Inc/Kemper	2/83	5.1	6.7	719	37	4.50	0.61
B	Kemper Municipal Bond Fund/Kemper	4/76	5.5	7.2	2,085	16	4.50	0.48
	Kemper Municipal Income Trust/closed-end	10/88	3.7	7.8	404	–3	NA	0.62
	Kemper New York Tax-Free Fund/Kemper	12/85	5.6	7.2	166	201	4.50	0.00p
	Kemper Strategic Muni Income/closed-end	3/89	6.6	7.9	115	–1	NA	0.77
	Keystone America Tax-Free Inc/Keystone	4/87	4.9	6.4	153	–9	†	*1.62*
	Keystone Tax-Exempt Trust/Keystone	10/85	4.3	6.7	594	1	4.00b	*1.80*
C	Keystone Tax-Free Fund/Keystone	1/78	5.6	7.1	871	–5	†	*1.23*
	Landmark NY T-F Income/Landmark	9/86	4.7	5.7	78	6	none	*1.42*
	Limited Term Municipal–Calif/Thornburg	2/87	6.1	6.3	26	108	2.75	*1.00p*
A+	Limited Term Municipal–Natl/Thornburg	9/84	6.5	6.8	216	18	2.75	*1.11*
	Lord Abbett California T-F Inc/Lord Abbett	9/85	5.8	6.7	106	7	4.75	*0.55p*
C	Lord Abbett Tax-Free–National/Lord Abbett	4/84	5.8	7.0	322	5	4.75	*0.61*
B	Lord Abbett Tax-Free–New York/Lord Abbett	4/84	5.3	7.2	182	13	4.75	*0.60*
	Lord Abbett Tax-Free–Texas/Lord Abbett	1/87	6.2	7.1	27	10	4.75	*0.27p*
B	Lutheran Brotherhood Muni Bond/Lutheran	1/76	5.6	7.2	363	8	5.00	0.86
	MainStay–Tax-Free Bond[1]/NYLife	5/86	2.9	6.5	132	22	5.00b	*1.45*
	Merrill Lynch Calif Muni Bond#/ML Funds	9/85	5.8	6.7	706	5	4.00	0.65
B	Merrill Lynch Muni–Hi Yield#/ML Funds	11/79	5.5	7.3	1,545	0	4.00	0.55
C	Merrill Lynch Muni–Insured#/ML Funds	11/77	5.6	7.0	2,428	11	4.00	0.47
A+	Merrill Lynch Muni–Ltd Mat/ML Funds	11/79	6.1	6.2	352	–9	0.75	0.41
	Merrill Lynch Muni Income#/ML Funds	11/86	5.7	6.4	121	–12	2.00	0.90
	Merrill Lynch NY Muni Bond#/ML Funds	11/85	5.7	6.8	603	–7	4.00	0.67
	MFS Lifetime Mngd Muni Bond/Mass Finl	12/86	4.3	6.0	370	18	6.00b	*2.07*
F	MFS Managed California Muni Bond/Mass Finl	6/85	5.9	6.3	75	14	4.75	*1.00*
A+	MFS Managed Hi Yield Muni Bond/Mass Finl	2/84	5.2	8.7	683	47	†	1.02
B	MFS Managed M-S Tax-Ex–Md/Mass Finl	11/84	5.7	6.4	97	7	4.75	*1.18*
B	MFS Managed M-S Tax-Ex–Mass/Mass Finl	4/85	5.3	6.8	217	–3	4.75	*1.10*
	MFS Managed M-S Tax-Ex–NY/Mass Finl	5/88	5.1	6.9	28	134	4.75	*0.40p*
B	MFS Managed M-S Tax-Ex–NC/Mass Finl	11/84	5.4	6.5	196	27	4.75	*1.12*

has two share classes, one with 12b-1 fee and back-end load and the other with front-end load only. Results shown are for front-loaded shares. Assets are for entire *xpense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* †Part of integrated financial account. ides back-end load that reverts to distributor. p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or not available. [1]Formerly MacKay- MainStay–Tax-Free Bond.

Distributor table, page 248. Rules, page 176.

Annual Fund Ratings

Performance in UP —markets—	Performance in DOWN —markets—	Fund/distributor	Date started	Latest 12 months total return	Latest 12 months return from income dividends	Total assets 6/30/90 ($mil)	Total assets % change '90 vs '89	Maximum sales charge	Ar exp per
		Shearson Lehman municipal bond index		11.4%	7.8%				
		Forbes municipal bond composite		5.5%	6.8%				$
D	B	MFS Managed M-S Tax-Ex–SC/Mass Finl	11/84	5.5%	6.3%	$65	23%	4.75%	
		MFS Managed M-S Tax-Ex–Tenn/Mass Finl	8/88	5.7	6.6	64	77	4.75	
D	A	MFS Managed M-S Tax-Ex–Va/Mass Finl	11/84	6.2	6.7	253	13	4.75	
D	A	MFS Managed M-S Tax-Ex–W Va/Mass Finl	10/84	5.5	6.6	56	15	4.75	
A	C	MFS Managed Municipal Bond/Mass Finl	12/76	4.8	6.8	1,396	16	4.75	
		MFS Municipal Income Trust/closed-end	11/86	6.1	8.3	334	–1	NA	
		Muni Bond Funds–California/Smith Barney	4/87	6.1	7.3	84	87	4.00	
		Muni Bond Funds–National/Smith Barney	9/86	6.5	7.6	173	43	4.00	
		Muni Bond Funds–New York/Smith Barney	2/87	4.9	7.3	31	117	4.00	
		Municipal High Income Fund/closed-end	11/88	5.8	8.1	166	2	NA	
		MuniEnhanced Fund/closed-end	3/89	3.4	6.9	458	44	NA	
		MuniVest Fund/closed-end	9/88	4.6	7.5	811	–1	NA	
A	C	Mutual of Omaha T-F Inc/Mutual of Omaha	1/77	5.8	6.8	358	3	4.75	
A	F	New England Tax-Exempt Inc/New England	5/77	5.1	6.6	145	5	4.50	
D	F	New York Muni Fund/Fundamental	4/81	2.8	6.4	235	–1	none	
		Nuveen California Muni Income/closed-end	4/88	6.7	6.8	59	–1	NA	
		Nuveen California Muni Value/closed-end	10/87	6.3	6.6	184	0	NA	
		Nuveen California T-F–Ins Bond/Nuveen	7/86	5.0	6.4	51	45	4.75	
		Nuveen California T-F–Spec Bond/Nuveen	7/86	6.2	6.6	79	51	4.75	
		Nuveen Insured T-F Bond–Natl/Nuveen	12/86	5.7	6.6	132	59	4.75	
		Nuveen Insured T-F Bond–NY/Nuveen	12/86	5.1	6.5	55	120	4.75	
C	B	Nuveen Municipal Bond Fund/Nuveen	11/76	6.2	6.8	1,294	18	4.75	
		Nuveen Municipal Value Fund/closed-end	6/87	6.3	7.1	1,612	–1	NA	
		Nuveen New York Muni Income/closed-end	4/88	5.7	7.0	28	–1	NA	
		Nuveen New York Muni Value/closed-end	10/87	4.8	6.7	113	–2	NA	
		Nuveen Performance + Muni/closed-end	6/89	4.7	6.4	1,171	55	NA	
		Nuveen Premium Income Muni/closed-end	7/88	7.0	7.4	1,093	0	NA	
		Nuveen Tax-Free Bond–New York/Nuveen	12/86	5.4	6.7	38	69	4.75	
		Nuveen Tax-Free Bond–Ohio/Nuveen	12/86	6.6	6.6	50	59	4.75	
		Olympus Tax-Exempt California/Furman Selz	9/87	4.2	6.9	27	–16	4.25	
		Oppenheimer Calif Tax-Ex/Oppenheimer	11/88	6.8	7.0	72	151	4.75	
D	A	Oppenheimer NY Tax-Ex/Oppenheimer	8/84	4.8	6.4	243	34	4.75	
C	B	Oppenheimer Tax-Free Bond/Oppenheimer	10/76	5.6	7.0	239	16	4.75	
		Overland Express Calif Tax-Free/Overland	10/88	6.1	7.0	131	212	4.50	
D	B	Pacific Horizon–Calif T-E Bond/Concord Finl	3/84	6.0	6.7	104	13	4.50	

Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force. p: Net of partial absorption of expenses by sponsor. NA: Not applicable or not available.

Distributor table, page 248. Rules, page 176.

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Annual Fund Ratings

Performance in UP —markets—	Performance in DOWN —markets—	Fund/distributor	Date started	Latest 12 months total return	Latest 12 months return from income dividends	Total assets 6/30/90 ($mil)	Total assets % change '90 vs '89	Maximum sales charge	An exp per
		Shearson Lehman municipal bond index		11.4%	7.8%				
		Forbes municipal bond composite		5.5%	6.8%				$0
		PaineWebber Calif Tax-Ex Inc/PaineWebber	9/85	5.9%	6.8%	$205	7%	4.25%	$0
B	C	PaineWebber Tax-Exempt Inc/PaineWebber	12/84	5.7	7.2	337	4	4.25	
		Parkstone Muni Bond/Winsbury	10/88	4.6	5.8	100	47	4.50	
		Pierpont Tax-Exempt Bond/TBC	10/84	6.2	6.6	145	13	none	
		Piper Jaffray Minnesota Tax-Exempt/Piper	7/88	4.8	6.6	62	71	4.00	
		Premier Calif Tax-Exempt Bond/Dreyfus	11/86	7.1	7.3	107	227	4.50	
		Premier NY Tax-Exempt Bond/Dreyfus	12/86	4.9	7.3	27	290	4.50	
		Premier State-Tax-Ex–Conn/Dreyfus	5/87	6.2	7.2	102	145	4.50	
		Premier State-Tax-Ex–Fla/Dreyfus	5/87	7.5	7.4	88	303	4.50	
		Premier State-Tax-Ex–Md/Dreyfus	5/87	6.8	7.2	105	220	4.50	
		Premier State-Tax-Ex–Mass/Dreyfus	5/87	5.9	7.5	48	83	4.50	
		Premier State-Tax-Ex–Mich/Dreyfus	5/87	5.5	7.4	71	392	4.50	
		Premier State-Tax-Ex–Minn/Dreyfus	5/87	6.5	7.4	55	219	4.50	
		Premier State-Tax-Ex–Ohio/Dreyfus	5/87	6.6	7.4	108	164	4.50	
		Premier State-Tax-Ex–Penn/Dreyfus	7/87	7.3	7.5	64	308	4.50	
		Premier Tax-Exempt Bond/Dreyfus	11/86	6.9	7.6	124	225	4.50	
		T Rowe Price Calif Tax-Free Inc–Bond/Price	9/86	4.9	6.2	73	36	none	
		T Rowe Price Md Tax-Free Bond/Price	3/87	5.3	6.3	233	58	none	
		T Rowe Price NY Tax-Free Bond/Price	8/86	4.4	6.4	50	20	none	
C	A	T Rowe Price Tax-Free High Yield/Price	3/85	6.7	7.4	471	23	none	
C	D	T Rowe Price Tax-Free Income Fund/Price	10/76	5.0	6.6	1,131	3	none	
F	A	T Rowe Price T-F Short-Intermed/Price	12/83	6.0	5.8	221	4	none	
		ProvidentMutual Penn Tax-Free[1]/Provident	10/86	4.7	5.9	30	6	4.50	
		Pru-Bache Bond–Insured#/Pru-Bache	9/87	5.0	6.2	532	42	4.50	
C	C	Pru-Bache Calif Municipal#/Pru-Bache	9/84	4.7	6.1	179	1	4.50	
C	C	Pru-Bache Muni–Arizona#/Pru-Bache	9/84	5.7	6.1	61	3	4.50	
		Pru-Bache Muni–Hi Yield#/Pru-Bache	9/87	5.7	7.6	666	44	4.50	
D	C	Pru-Bache Muni–Maryland#/Pru-Bache	1/85	5.5	6.2	49	5	4.50	
C	D	Pru-Bache Muni–Mass#/Pru-Bache	9/84	4.2	6.4	53	1	4.50	
B	D	Pru-Bache Muni–Michigan#/Pru-Bache	9/84	4.4	6.1	50	8	4.50	
		Pru-Bache Muni–NJ#/Pru-Bache	3/88	5.8	6.7	178	59	4.50	
C	D	Pru-Bache Muni–New York#/Pru-Bache	9/84	3.8	6.3	326	–4	none	
C	D	Pru-Bache Muni–NC#/Pru-Bache	2/85	4.7	6.2	57	7	4.50	
C	D	Pru-Bache Muni–Ohio#/Pru-Bache	9/84	4.9	6.3	91	4	4.50	
		Pru-Bache Muni–Penn#/Pru-Bache	4/87	5.3	6.4	152	39	4.50	
B	C	Pru-Bache Natl Municipals#/Pru-Bache	4/80	4.4	6.4	951	–6	4.50	

#Fund has two share classes, one with large 12b-1 fee and back-end load and the other with small 12b-1 fee and front-end load. Results shown are for front-loaded sh Assets are for entire fund. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* p: Net of pa absorption of expenses by fund sponsor. [1]Formerly Sigma Pennsylvania Tax-Free Trust.

Distributor table, page 248. Rules, page 176.

rformance in UP —markets—	in DOWN	Fund/distributor	Date started	Latest 12 months total return	Latest 12 months return from income dividends	Total assets 6/30/90 ($mil)	Total assets % change '90 vs '89	Maximum sales charge	Annual expenses per $100
		Shearson Lehman municipal bond index		**11.4%**	**7.8%**				
		Forbes municipal bond composite	.	**5.5%**	**6.8%**				**$0.78**
C	B	**Putnam California Tax-Ex Inc/Putnam**	4/83	5.3%	6.9%	$1,782	18%	4.75%	$0.52
		Putnam High Yield Muni/closed-end	5/89	6.3	8.5	185	–2	NA	NA
		Putnam Managed Muni Income/closed-end	2/89	5.1	8.2	387	–3	NA	NA
		Putnam Mass Tax-Free Inc/Putnam	10/86	4.7	6.4	76	8	2.50b	*1.60p*
		Putnam Michigan Tax-Ex Inc/Putnam	10/86	4.3	6.2	42	12	2.50b	*1.53p*
		Putnam Minnesota Tax-Ex Inc/Putnam	10/86	4.3	6.4	30	11	2.50b	*1.56p*
B	C	**Putnam New York Tax-Ex Inc/Putnam**	9/83	4.0	6.9	1,378	11	4.75	0.57
		Putnam Ohio Tax-Exempt Inc/Putnam	10/86	4.6	6.2	102	7	2.50b	*1.59p*
A+	D	**Putnam Tax-Exempt Income/Putnam**	12/76	4.9	6.8	1,344	8	4.75	0.52
		Putnam Tax-Free Income–Hi Yield/Putnam	9/85	3.9	7.2	641	1	5.00b	*1.75*
		Putnam Tax-Free Income–Insured/Putnam	9/85	4.9	5.9	305	5	5.00b	*1.61*
		Rochester Fund Municipals/Rochester	5/86	8.4	7.4	156	153	4.00	*0.90*
B	F	**Safeco California Tax-Free Income/Safeco**	8/83	5.7	6.4	50	21	none	0.69
A	C	**Safeco Municipal Bond Fund/Safeco**	11/81	5.9	6.8	304	17	none	0.57
B	C	**Scudder California Tax Free Fund/Scudder**	7/83	5.4	6.3	199	10	none	0.83
		Scudder High Yield Tax Free Fund/Scudder	1/87	5.3	6.7	121	17	none	1.00p
B	D	**Scudder Managed Muni Bonds/Scudder**	10/76	5.3	6.8	697	4	none	0.62
		Scudder Massachusettes Tax Free/Scudder	6/87	4.7	6.7	51	36	none	0.60
C	C	**Scudder New York Tax Free/Scudder**	7/83	4.4	6.4	135	5	none	0.89
		Scudder Ohio Tax Free Fund/Scudder	6/87	5.9	6.7	30	94	none	0.50p
C	A	**Seligman Calif Tax-Ex–Hi Yield/Seligman**	11/84	6.5	6.7	50	–9	4.50	0.89
A	D	**Seligman Calif Tax-Ex–Quality/Seligman**	11/84	5.2	6.4	63	4	4.50	0.85
		Seligman New Jersey Tax-Exempt/Seligman	2/88	5.3	6.4	54	6	4.75	*0.57p*
		Seligman Penn Tax-Ex–Quality/Seligman	7/86	5.5	6.3	38	22	4.75	*0.92p*
		Seligman Tax-Exempt–Colorado/Seligman	5/86	4.9	6.5	64	1	4.75	0.88
		Seligman Tax-Exempt–Louisiana/Seligman	10/85	5.8	6.7	45	4	4.75	0.80
		Seligman Tax-Exempt–Maryland/Seligman	10/85	5.1	6.3	48	0	4.75	0.87
B	D	**Seligman Tax-Exempt–Mass/Seligman**	12/83	4.2	6.8	119	–6	4.75	0.79
A	D	**Seligman Tax-Exempt–Michigan/Seligman**	7/84	5.5	6.6	115	2	4.75	0.81
B	D	**Seligman Tax-Exempt–Minnesota/Seligman**	12/83	5.6	6.4	161	9	4.75	0.83
		Seligman Tax-Exempt–Missouri/Seligman	7/86	5.7	6.2	53	4	4.75	0.81
A	C	**Seligman Tax-Exempt–National/Seligman**	12/83	4.7	6.7	139	–3	4.75	0.78
A	D	**Seligman Tax-Exempt–New York/Seligman**	12/83	4.3	6.7	79	4	4.75	0.80
A	D	**Seligman Tax-Exempt–Ohio/Seligman**	12/83	5.7	6.7	137	3	4.75	0.79
		Seligman Tax-Exempt–Oregon/Seligman	10/86	5.4	6.2	33	8	4.75	0.71p
		Seligman Tax-Exempt–SC/Seligman	6/87	5.5	6.4	50	15	4.75	0.74p

se ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force b: Includes back-end load that reverts to butor. p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or not available.

Distributor table, page 248. Rules, page 176.

Annual Fund Ratings

Performance in UP —markets—	Performance in DOWN —markets—	Fund/distributor	Date started	Latest 12 months total return	Latest 12 months return from income dividends	Total assets 6/30/90 ($mil)	Total assets % change '90 vs '89	Maximum sales charge	Ann expe per $
		Shearson Lehman municipal bond index		11.4%	7.8%				
		Forbes municipal bond composite		5.5%	6.8%				$0.
C	B	SLH California Municipals/Shearson	4/84	5.7%	6.7%	$326	–2%	5.00%	$0.
		SLH Income–Tax-Exempt Income/Shearson	9/85	4.3	6.7	568	4	5.00b	1.
B	B	SLH Managed Municipals/Shearson	3/81	5.7	7.5	1,435	–6	5.00	0.
		SLH NJ Municipals/Shearson	4/88	6.3	6.9	43	27	5.00	0.
C	B	SLH NY Municipals/Shearson	1/84	5.0	7.1	432	–2	5.00	0.
B	A	SteinRoe High Yield Municipals/Stein Roe	3/84	7.6	7.2	310	12	none	0.
A+	D	SteinRoe Managed Municipals/Stein Roe	1/77	6.2	6.7	584	13	none	0.
B	C	Tax-Ex Bond Fund of America/American Funds	10/79	5.4	6.9	542	24	4.75	0.
		Tax-Free Fund of Colorado/Aquila	5/87	6.2	6.6	75	102	4.00	0.
		Tax-Free Trust of Arizona/Aquila	3/86	5.7	6.7	121	19	4.00	0.
		Tax-Free Trust of Oregon/Aquila	6/86	5.2	6.5	138	15	4.00	0.
A+	D	United Municipal Bond Fund/Waddell	11/76	5.2	7.2	653	12	4.25	0.
		United Municipal High Income/Waddell	1/86	7.1	7.9	191	19	4.25	0.
B	C	USAA Tax-Exempt–High Yield/USAA	3/82	5.8	7.2	1,268	17	none	0.
D	A	USAA Tax-Exempt–Intermediate/USAA	3/82	6.2	7.0	497	17	none	0.
F	A+	USAA Tax-Exempt–Short-Term/USAA	3/82	5.6	6.5	298	18	none	0.
		Value Line New York Tax-Ex/Value Line	7/87	4.5	7.2	31	14	none	1.
D	A	Value Line Tax-Exempt–Hi Yield/Value Line	3/84	5.7	7.7	277	0	none	0.
		Van Kampen Merritt Calif Ins T-F/Van Kampen	12/85	4.5	6.8	49	10	4.90	0.
		Van Kampen Merritt Calif Muni/closed-end	11/88	3.6	7.1	48	65	NA	0.
B	C	Van Kampen Merritt Ins T-F/Van Kampen	12/84	5.2	7.0	648	8	4.90	0.
		Van Kampen Merritt Muni Inc/closed-end	8/88	5.4	7.2	418	–1	NA	1.
		Van Kampen Merritt Penn T-F Inc/Van Kampen	5/87	6.2	7.3	57	77	4.90	0.
		Van Kampen Merritt T-F Hi Inc/Van Kampen	6/85	5.2	8.5	640	7	4.90	0.
		Vanguard California T-F–Ins L-T/Vanguard	4/86	5.6	6.6	324	63	none	0.
A+	D	Vanguard Muni Bond–High Yield/Vanguard	12/78	5.2	7.3	989	15	none	0.
A	C	Vanguard Muni Bond–Ins L-T/Vanguard	9/84	5.7	7.1	1,125	23	none	0.
D	B	Vanguard Muni Bond–Intermed/Vanguard	9/77	6.7	6.9	1,232	27	none	0.
		Vanguard Muni Bond–Ltd Term/Vanguard	8/87	7.1	6.4	228	38	none	0.
A	D	Vanguard Muni Bond–Long-Term/Vanguard	9/77	5.7	7.2	696	12	none	0.
F	A+	Vanguard Muni Bond–S-T/Vanguard	9/77	6.5	5.9	723	3	none	0.
		Vanguard NJ T-F–Insured L-T/Vanguard	2/88	5.5	6.8	190	93	none	0.
		Vanguard New York Insured T-F/Vanguard	4/86	5.1	6.6	214	53	none	0.
		Vanguard Penn Tax-Free–Ins L-T/Vanguard	4/86	6.1	6.8	501	40	none	0.
		Voyageur Colorado Tax-Free/Voyageur	4/87	5.8	6.4	43	55	3.90	1.
D	A	Voyageur Minnesota Tax-Free/Voyageur	2/84	5.7	6.7	184	13	4.75	0.

Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force. b: Includes back-end load that reverts distributor. p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or not available.

Distributor table, page 248. Rules, page 176.

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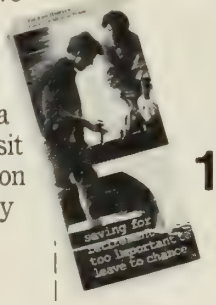

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Taxable money funds

Money market funds are either federally taxable or federally tax-exempt. Within each group, funds get pretty much the same yields on the paper they buy, but their returns differ because their overhead differs. (Look at the expense column on the right.) You should also compare the fees sometimes charged for such services as check-writing and wiring money. Taxable funds specializing in U.S. government-backed paper are marked with a •. These funds offer less risk with slight, if any, yield penalties. They may or may not be exe from state income taxes; on that score, read the articl page 132 and study the fund's portfolio. The listing of exempt money market funds begins on page 245. For r information on a fund, contact the distributor listed afte fund's name (see page 248).

Portfolio average maturity days	Fund/distributor	Date started	Last 12 months return from income dividends	Total assets 6/30/90 ($mil)	Total assets % change '90 vs '89	Minimum initial investment	Annu expen per $1
	Forbes taxable money fund composite		7.9%				$0.6
	Forbes tax-free money fund composite		5.4%				$0.6
60	Active Assets Money Trust/Dean Witter	2/81	8.1%	$3,448	16%	†	*$0 5*
40	Alliance Capital Reserves/Alliance	7/78	7.8	1,891	23	$1,000	*0.8*
56	•Alliance Government Reserves/Alliance	7/79	7.7	585	12	1,000	*0.8*
43	Alliance Money Reserves/Alliance	2/89	7.9	995	77	1,000	*0.9*
32	Alex Brown Cash Reserve–Prime/Brown	8/81	8.1	1,084	0	1,500	*0.5*
54	•Capital Preservation Fund/Benham	10/72	7.6	2,945	13	1,000	0.5
2	•Capital Preservation Fund II/Benham	6/80	7.9	650	–2	1,000	0.7
35	•Cardinal Government Securities/Cardinal	9/80	8.0	592	16	1,000	0.7
32	Cash Accumulation–Natl MM/Thomson	11/84	8.7	2,289	–11	500	*0.7*
13	•Cash Equivalent Fund–Govt/Kemper	12/81	8.0	2,619	–5	1,000	*0.7*
40	Cash Equivalent Fund–MM/Kemper	3/79	7.9	3,975	–39	1,000	*0.8*
22	Cash Mgmt Trust of America/American Funds	11/76	8.1	1,705	29	2,500	*0 5*
42	CBA Money Fund/MLPF&S	6/84	7.9	912	48	†	*0.6*
11	•CMA Government Securities/MLPF&S	8/81	7.9	3,334	28	†	*0.5*
56	CMA Money Fund/MLPF&S	9/77	8.0	28,149	15	†	*0.5*
36	Columbia Daily Income Co/Columbia	11/74	7.9	746	17	1,000	0.6
46	Command Money Fund/Pru-Bache	2/82	8.1	2,669	21	†	*0.5*
24	Daily Cash Accumulation Fund/Centennial	7/78	8.0	4,709	19	500	*0.6*
55	Dean Witter/Sears Liquid Asset/Dean Witter	9/75	8.1	11,304	13	5,000	*0.5*
55	•Dean Witter/Sears US Govt MM/Dean Witter	2/82	7.6	843	17	1,000	*0.8*
55	Delaware Group Cash Reserve/Delaware	6/78	7.9	1,073	3	1,000	0.8
60	Dreyfus Liquid Assets/Dreyfus	1/74	8.1	7,695	2	2,500	0.6
65	•Dreyfus MM Instrum–Govt Secs/Dreyfus	5/79	7.8	631	–7	2,500	0.7
45	Dreyfus NJ Tax Exempt MM/Dreyfus	6/88	5.8	575	46	2,500	0.2

•Specializes in U.S. government paper. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* †Pa integrated financial account. p: Net of partial absorption of expenses by fund sponsor.

Distributor table, page 248. Rules, page 176.

lio ge ity s Fund/distributor	Date started	Last 12 months return from income dividends	Total assets 6/30/90 ($mil)	Total assets % change '90 vs '89	Minimum initial investment	Annual expenses per $100
Forbes taxable money fund composite		7.9%				$0.68
Forbes tax-free money fund composite		5.4%				$0.64
Dreyfus Worldwide Dollar MM/Dreyfus	2/89	8.8%	$7,906	322%	$2,500	0.00p
FFB Funds–Cash Management/Furman Selz	3/86	8.1	513	16	1,000	*$0.56*
Fidelity Cash Reserves/Fidelity	5/79	8.0	10,354	–1	2,500	0.74
Fidelity Daily Income Trust/Fidelity	5/74	8.1	2,890	4	5,000	0.64
Fidelity Select–Money Market/Fidelity	8/85	7.9	539	–33	1,000	0.83
Fidelity Spartan Money Market/Fidelity	1/89	8.7	8,245	212	20,000	0.09p
•Fidelity US Government Reserves/Fidelity	11/81	7.8	1,456	–3	2,500	0.75
•First Prairie MM–Government/Dreyfus	5/87	7.6	602	89	1,000	*0.93p*
Franklin Money Fund/Franklin	1/76	7.7	1,558	–4	500	0.74
Freedom Cash Management/Freedom	4/81	7.9	1,113	18	1,000	0.80
•Fund for Govt Investors/Rushmore	3/75	7.6	703	10	2,500	0.72
General Money Market Fund/Dreyfus	2/82	7.9	746	–2	2,500	*0.93*
Gradison Cash Reserves Trust/Gradison	5/76	7.8	648	13	1,000	*0.77*
Heritage Cash Trust/Heritage	11/85	7.9	690	66	2,500	*0.83*
IDS Cash Management Fund/IDS	10/75	7.8	1,606	15	2,000	0.75
ED Jones Daily Passport Cash/Jones & Co	3/80	7.8	2,351	45	1,000	0.85
•Kemper Money Market–Govt Secs/Kemper	11/81	8.2	808	66	1,000	0.45
Kemper Money Market–MM/Kemper	11/74	8.3	7,485	16	1,000	0.46
Kidder, Peabody Premium Account/Kidder	5/82	7.9	1,060	9	†	*0.68*
Legg Mason Cash Reserve Trust/Legg Mason	9/79	7.9	873	44	1,000	0.75
•Liberty US Govt Money Market/Federated	6/80	7.6	1,414	2	500	1.01
Liquid Capital Income Trust/Carnegie	11/74	7.6	1,449	25	1,000	0.72
Mass Cash Management–Prime/Mass Finl	12/75	7.9	637	0	1,000	0.83
•Merrill Lynch Government Fund/ML Boston	9/77	8.0	1,259	–8	5,000	0.46
Merrill Lynch Institutional Fund/ML Boston	12/74	8.2	1,667	12	25,000	0.45
Merrill Lynch Ready Assets/ML Funds	2/75	8.0	10,315	5	5,000	*0.63*
Merrill Lynch Retire Reserves/ML Funds	4/82	8.0	5,376	32	none	0.72
National Liquid Reserves–Cash/Smith Barney	8/74	8.1	2,121	25	1,500	0.51
Natl Liquid Reserves–Retire/Smith Barney	2/86	8.0	876	39	200	0.59
Nationwide Money Market Fund/Nationwide	3/80	8.0	571	16	1,000	0.74
New England Cash Mgmt–MM/New England	7/78	8.0	1,141	16	1,000	0.71
Oppenheimer Money Market/Oppenheimer	4/74	8.0	958	11	1,000	0.74
Pacific Horizon–Prime[1]/Concord Finl	3/84	8.1	1,536	18	1,000	*0.63*
•Pacific Horizon–Treas[2]/Concord Finl	3/84	7.9	1,843	48	1,000	0.55
PaineWebber Cashfund/PaineWebber	5/78	8.1	5,070	9	5,000	0.54
PaineWebber RMA–MM/PaineWebber	10/82	8.1	3,766	43	†	0.58

lizes in U.S. government paper. *Expense ratio is in italics if the fund has a shareholder paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force* †Part of ed financial account. p: Net of partial absorption of expenses by fund sponsor. [1]Formerly Pacific Horizon–Money Market. [2]Formerly Pacific Horizon–Govern- oney Market.

Distributor table, page 248. Rules, page 176.

Annual Fund Ratings/Taxable Money Funds

Portfolio average maturity days	Fund/distributor	Date started	Last 12 months return from income dividends	Total assets 6/30/90 ($mil)	Total assets % change '90 vs '89	Minimum initial investment	Annu expens per $1
	Forbes taxable money fund composite		7.9%				$0.6
	Forbes tax-free money fund composite		5.4%				$0.6
53	PaineWebber RMA–Retirement/PaineWebber	7/88	7.9%	$1,812	35%	†	*$0.85*
40	Parkstone Prime Obligations/Winsbury	8/87	8.0	547	4	$1,000	0.6
NA	Pierpont Money Market/TBC	11/83	8.2	2,071	9	25,000	0.4
57	Piper Jaffray Money Market/Piper	3/87	7.8*	1,173	34	250	*0.9*
30	T Rowe Price Prime Reserve Fund/Price	3/76	7.9	4,650	10	2,500	0.7
68	•Pru-Bache Govt Secs–MM/Pru-Bache	1/82	7.9	808	53	1,000	*0.6*
38	Pru-Bache Moneymart Assets/Pru-Bache	6/76	7.9	8,237	20	1,000	*0.7*
45	Putnam Daily Dividend Trust/Putnam	10/76	7.9	762	8	1,000	0.8
3	•Reserve Fund–Government/Resrv	10/81	7.7	643	4	1,000	*0.9*
25	Reserve Fund–Primary/Resrv	11/71	7.7	1,918	8	1,000	*0.9*
38	Rodney Square Fund–MM/Rodney	10/82	8.2	627	–4	1,000	*0.5*
51	Scudder Cash Investment Trust/Scudder	7/76	7.9	1,633	4	1,000	0.6
37	Short-Term Income–MM/Reich & Tang	1/80	7.9	845	11	5,000	*0.7*
77	SLH Daily Dividend/Shearson	6/79	8.0	15,693	10	2,500	0.6
76	•SLH Government & Agencies/Shearson	10/80	7.8	2,832	1	2,500	0.7
43	Standby Reserve Fund/Cowen	11/81	8.0	569	34	2,000	0.6
49	SteinRoe Cash Reserves/Stein Roe	9/76	7.9	952	0	1,000	0.7
66	Strong Money Market Fund/Strong	10/85	8.2	790	17	1,000	0.7
52	•Summit Cash Reserves Fund/ML Funds	12/82	7.9	539	–16	5,000	0.7
53	20th Century Cash Reserve/20th Century	3/85	7.7	717	27	none	1.0
55	United Cash Management/Waddell	8/79	7.9	566	27	1,000	0.9
46	USAA Mutual–Money Market/USAA	2/81	8.0	927	8	1,000	0.6
64	•UST Master–Govt Money/UST Secs	5/85	8.1	516	158	1,000	0.5
19	Value Line Cash Fund/Value Line	4/79	8.0	520	–13	1,000	0.6
39	•Vanguard MM Reserves–Federal/Vanguard	7/81	8.2	1,751	25	3,000	0.3
41	Vanguard MM Reserves–Prime/Vanguard	6/75	8.4	12,618	33	3,000	0.3
41	Vanguard MM Res–US Treas/Vanguard	3/83	8.0	860	209	3,000	0.3
40	Vantage Money Market–Cash/Smith Barney	10/82	8.0	1,184	26	†	0.0
42	Webster Cash Reserve Fund/Kidder	8/79	7.9	2,073	12	1,500	*0.0*

•Specializes in U.S. government paper. *Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force.* †P integrated financial account. p: Net of partial absorption of expenses by fund sponsor. NA: Not applicable or not available.

Distributor table, page 248. Rules, page 176.

'ax-free money funds

s table lists funds that buy short-term federally tax-ex- ɔt paper, such as tax anticipation notes issued by states cities. The drawback to tax-exempt money markets is almost all of the advantage you gain by avoiding taxes lose by getting a lower return on your money—about one-third lower, on average. Portfolios invested entirely in one state, so-called double-tax-free funds, are usually exempt from that state's income tax. To appear on this table a fund must have either $100 million in assets or $25 million in assets and a one-state portfolio.

tfolio erage turity ays	Fund/distributor	Date started	Last 12 months return from income dividends	Total assets 6/30/90 ($mil)	Total assets % change '90 vs '89	Minimum initial investment	Annual expenses per $100
	Forbes taxable money fund composite		7.9%				$0.68
	Forbes tax-free money fund composite		5.4%				$0.64
50	Active Assets Tax-Free Trust/Dean Witter	7/81	5.4%	$1,175	7%	†	*$0.57*
38	Alliance Tax-Exempt Res–Calif/Alliance	6/88	5.0	104	–57	$1,000	*1.00*
53	Alliance Tax-Exempt Res–General/Alliance	1/83	5.5	799	15	1,000	*0.83*
68	Alliance Tax Exempt Res–NY/Alliance	10/86	5.1	63	49	1,000	*0.80p*
50	Benham Calif Tax-Free–MM/Benham	11/83	5.2	458	–5	1,000	0.56
3	Boston Co T-F Muni–Mass Money/Boston Co	7/83	5.6	158	19	1,000	*0.63*
4	California Daily Tax-Free Inc/Reich & Tang	2/87	5.2	110	26	5,000	*0.62p*
6	California Tax-Free MM/California Inv	12/85	5.7	78	–6	10,000	0.25p
3	Calvert Tax-Free Reserves–MM/Calvert	4/81	6.0	932	17	2,000	0.63
8	Carnegie Tax-Free Income Trust/Carnegie	8/82	5.2	217	–2	1,000	0.62
2	Cash Accumulation–Natl T-E/Thomson	11/84	5.7	218	–17	500	*0.69*
6	Cash Equivalent Fund–T-E MM/Kemper	7/82	5.5	1,178	–44	1,000	*0.63*
1	Centennial Tax-Exempt Trust/Centennial	9/81	5.4	579	19	500	*0.79*
0	CMA Calif Tax Exempt/MLPF&S	7/88	5.2	1,017	17	†	*0.65p*
1	CMA New York Tax Exempt/MLPF&S	7/88	5.1	479	41	†	*0.71p*
9	CMA Tax-Exempt Fund/MLPF&S	1/81	5.6	7,876	13	†	*0.54*
7	Command Tax-Free Fund/Pru-Bache	2/82	5.5	714	17	†	*0.70*
5	Connecticut Daily Tax-Free Inc/Reich & Tang	5/85	5.2	213	–7	5,000	*0.78*
5	Counsellors New York Tax-Ex/Counsellors	4/85	5.2	72	51	1,000	0.50p
3	Daily Tax-Free Income Fund/Reich & Tang	11/82	5.5	725	0	5,000	*0.76*
4	Dean Witter Calif T-F Daily Inc/Dean Witter	7/88	5.1	364	6	5,000	*0.68*
3	Dean Witter/Sears T-F Daily Inc/Dean Witter	2/81	5.4	905	–1	5,000	*0.61*
2	Dreyfus California Tax-Ex MM/Dreyfus	1/86	5.3	381	10	2,500	0.60
7	Dreyfus New York Tax-Ex MM/Dreyfus	6/87	5.2	528	17	2,500	0.65p
)	Dreyfus Tax-Exempt MM/Dreyfus	8/80	5.5	2,060	–5	2,500	0.58
7	Empire Tax-Free Money Market/Reich & Tang	5/84	5.2	196	4	5,000	*0.77p*
3	Evergreen Tax Exempt MM/Lieber	11/88	6.1	288	175	2,000	0.29p
)	Evergreen Tax Exempt MM–Calif/Lieber	11/88	5.6	36	29	2,000	0.27p
5	Federated Tax-Free Trust/Federated	3/79	5.6	1,913	–13	25,000	0.46p

se ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force. †Part of integrated financial account p. Ne 1 absorption of expenses by fund sponsor.

Distributor table, page 248. Rules, page 176.

Annual Fund Ratings/Tax-Free Money Funds

Portfolio average maturity days	Fund/distributor	Date started	Last 12 months return from income dividends	Total assets 6/30/90 ($mil)	Total assets % change '90 vs '89	Minimum initial investment	Annu expen per $
	Forbes taxable money fund composite		7.9%				$0.0
	Forbes tax-free money fund composite		5.4%				$0.0
54	FFB Funds–Tax-Free MM/Furman Selz	9/86	5.4%	$125	–6%	$1,000	*$0.6*
46	Fidelity Calif Tax-Free–MM/Fidelity	7/84	5.2	582	–21	5,000	0.6
31	Fidelity Mass Tax-Free–MM/Fidelity	11/83	5.3	743	15	5,000	0.6
38	Fidelity New Jersey Tax-Free–MM/Fidelity	3/88	5.8*	483	56	5,000	0.2
50	Fidelity NY Tax-Free–MM/Fidelity	7/84	5.1	581	–9	5,000	0.6
38	Fidelity Spartan Penn Muni–MM[1]/Fidelity	8/86	5.9	240	58	25,000	0.1
38	Fidelity Tax-Exempt–MM/Fidelity	1/80	5.6	2,705	–4	5,000	0.4
37	First Prairie T-E Money Market/Dreyfus	2/86	5.5	144	14	1,000	*0.9*
23	Flag Inv T-F Cash Reserve Shs/Brown	4/83	5.6	296	34	1,500	*0.4*
29	Franklin Calif Tax-Exempt Money/Franklin	9/85	5.5	1,041	30	500	0.5
53	Franklin New York Tax-Ex Money/Franklin	1/86	5.4	94	60	500	0.5
55	Franklin Tax-Exempt Money Fund/Franklin	2/82	5.7	223	23	500	0.7
35	Freedom Tax-Exempt Money/Freedom	12/82	5.3	237	17	1,000	0.0
14	General Calif Muni MM/Dreyfus	3/87	5.8	245	239	2,500	0.7
55	General NY Muni MM/Dreyfus	12/86	5.5	323	364	2,500	0.7
37	General Tax-Exempt MM/Dreyfus	12/83	5.5	363	5	2,500	0.6
51	HT Insight–Tax-Free MM Fund/TBC	2/88	5.4	121	16	1,000	*0.4*
70	IDS Tax-Free Money Fund/IDS	8/80	5.3	129	17	2,000	0.6
37	Kemper MM–Tax-Ex/Kemper	9/87	5.7	676	37	1,000	0.4
30	Kidder, Peabody Calif T-E MM/Kidder	8/87	5.1	246	21	1,500	*0.6*
57	Kidder, Peabody Tax-Exempt MM/Kidder	7/83	5.5	749	8	1,500	*0.6*
49	Landmark NY T-F Reserves/Landmark	1/85	5.2	562	60	1,000	*0.6*
52	Landmark Tax-Free Reserves/Landmark	1/84	5.5	144	13	1,000	*0.6*
23	Legg Mason Tax-Exempt Trust/Legg Mason	7/83	5.3	161	11	1,000	*0.7*
22	Michigan Daily Tax-Free Inc/Reich & Tang	3/87	5.9	88	85	5,000	*0.2*
93	Midwest Group T-F–Ohio MM/MGF	9/87	5.5	124	58	1,000	*0.7*
43	Neuberger & Berman Muni MM/Neuberger	12/84	5.5	161	–4	2,000	0.6
22	Nuveen California Tax-Free–MM/Nuveen	3/86	5.4	453	25	5,000	*0.5*
48	Nuveen Tax-Exempt MM/Nuveen	4/81	5.8	1,815	5	25,000	0.4
46	Nuveen Tax-Free MM–Mass/Nuveen	12/86	5.6	62	52	5,000	*0.5*
39	Nuveen Tax-Free MM–New York/Nuveen	12/86	5.3	41	31	5,000	*0.5*
31	Nuveen Tax-Free Reserves/Nuveen	11/82	5.6	392	4	1,000	*0.7*
54	AT Ohio Tax-Free Money Fund/Federated	7/85	5.4	286	16	25,000	0.6
41	Overland Express Tax Free MM/Overland	4/88	5.3	283	28	1,000	0.6
77	PaineWebber RMA–CA Muni Money/PaineWebber	11/88	5.1	254	42	†	*0.6*

Expense ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force. †Part of integrated financial account. p: Ne partial absorption of expenses by fund sponsor. [1]Formerly Fidelity Pennsylvania Tax-Free Money Market.

Distributor table, page 248. Rules, page 176.

folio rage urity ys	Fund/distributor	Date started	Last 12 months return from income dividends	Total assets 6/30/90 ($mil)	Total assets % change '90 vs '89	Minimum initial investment	Annual expenses per $100
	Forbes taxable money fund composite		7.9%				$0.68
	Forbes tax-free money fund composite		5.4%				$0.64
8	PaineWebber RMA–NY Muni Money/PaineWebber	11/88	5.2%	$95	79%	†	*$0.37p*
4	PaineWebber RMA–Tax-Free/PaineWebber	10/82	5.3	1,098	20	†	*0.67*
6	Parkstone Tax-Free/Winsbury	7/87	5.6	142	18	$1,000	0.63p
A	Pierpont Tax-Exempt MM/TBC	9/83	5.6	897	17	25,000	0.56
7	Piper Jaffray Tax-Exempt MM/Piper	7/88	5.5	109	36	250	*0.91*
1	T Rowe Price Calif T-F Inc–Money/Price	9/86	4.9	84	–1	2,500	0.78
0	T Rowe Price New York T-F Money/Price	8/86	4.9	50	7	2,500	0.80p
3	T Rowe Price Tax-Exempt Money/Price	4/81	5.4	980	–11	2,500	0.59
	Pru-Bache Muni–New York MM/Pru-Bache	4/85	4.6	210	22	1,000	*0.75*
3	Pru-Bache Tax-Free Money Fund/Pru-Bache	8/79	5.4	690	4	1,000	*0.75*
5	Putnam California Tax-Ex MM/Putnam	10/87	5.4	75	10	1,000	*0.69p*
5	Putnam New York Tax-Ex MM/Putnam	10/87	5.1	66	50	1,000	*0.67p*
4	Putnam Tax-Exempt MM/Putnam	10/87	5.6	101	20	1,000	*0.69p*
3	Reserve New York Tax-Ex–NY/Resrv	11/83	5.0	107	11	1,000	*0.95*
	Reserve Tax-Exempt–Connecticut/Resrv	5/85	5.1	309	25	1,000	*0.80p*
	Reserve Tax-Exempt–Interstate/Resrv	11/83	5.4	346	5	1,000	*0.99*
	Rodney Square Tax-Exempt/Rodney	2/86	5.5	220	–20	1,000	*0.57*
1	Scudder California Tax-Free Money/Scudder	6/87	5.0	61	–6	1,000	0.75
	Scudder Fund–Managed Tax-Free/Scudder	10/82	5.4	130	34	2,500	*0.76*
	Scudder NY Tax-Free Money Fund/Scudder	6/87	5.0	36	–7	1,000	0.60p
	Scudder Tax-Free Money Fund/Scudder	1/80	5.4	272	–15	1,000	0.72
	SLH Calif Daily Tax-Free/Shearson	11/85	5.3	684	20	2,500	0.58
	SLH Daily Tax-Free Dividend/Shearson	10/82	5.6	2,858	–1	2,500	0.63
	SLH NY Daily Tax-Free/Shearson	11/85	5.2	450	21	2,500	0.59
	SteinRoe Tax-Exempt Money/Stein Roe	3/83	5.4	256	1	1,000	0.67
	Strong Tax-Free Money Market/Strong	10/86	5.8	109	43	2,500	0.90
	Tax-Exempt California MM/Kemper	6/87	5.1	235	6	1,000	*0.63*
	Tax-Free Instruments Trust/Federated	12/82	5.6	1,143	–18	500	0.55p
	Tax-Free Money Fund/Smith Barney	4/81	5.5	1,191	11	7,500	0.53
	USAA Tax-Exempt Fund–MM/USAA	2/84	6.0	1,069	43	3,000	0.42
	UST Master Tax-Exempt–S-T/UST Secs	5/85	5.6	537	9	1,000	0.55
	Vanguard California T-F–MM/Vanguard	6/87	5.4	639	51	3,000	0.22
	Vanguard Muni Bond–MM/Vanguard	6/80	5.8	2,386	21	3,000	0.27
	Vanguard NJ Tax-Free–MM/Vanguard	2/88	5.9	381	85	3,000	0.22
	Vanguard Penn Tax-Free–MM/Vanguard	6/88	5.9	618	85	3,000	0.22

e ratio is in italics if the fund has a shareholder-paid 12b-1 plan exceeding 0.1% (hidden load) pending or in force †Part of integrated financial account p: Net of absorption of expenses by fund sponsor. NA: Not applicable or not available.

Distributor table, page 248. Rules, page 176.

Fund distributors

The firms that market mutual funds are listed below. A fund without a distributor is listed under the name of the fund itself. Contact the distributor to get the prospectus, the most recent shareholder report and additional information. Your stockbroker may have literature on funds with sales loads. Closed-end funds trade like stocks and do not have distributors. The key below lists fund types. Page 17 describes our selection process and methods.

Distributor	Type of fund
AAL Mutual Funds 222 West College Avenue Appleton, WI 54919-0007 (414) 734-7633 (local); (800) 553-6319	
AAL Capital Growth Fund	ST
AAL Income Fund	BD
ABT Financial Services 205 Royal Palm Way Palm Beach, FL 33480 (800) 289-2281	
ABT Growth & Income Trust	ST
ABT Invest–Emerging Growth	ST
ABT Invest–Security Income	ST
ABT Utility Income Fund	ST
Accrued Equities 295 Northern Boulevard Great Neck, NY 11021 (516) 466-0808*	
New Alternatives Fund	ST
Acorn Fund 2 North LaSalle Street Suite 500 Chicago, IL 60602-3790 (312) 621-0630* (local); (800) 922-6769	
Acorn Fund	ST
Adtek Fund 4920 West Vliet Street Milwaukee, WI 53208 (414) 257-1842	
Adtek Fund	BA
Advest Group 280 Trumbull Street Hartford, CT 06103 (800) 842-3807 (local); (800) 243-8115	
Advantage Government Securities	BD
Advantage Growth Fund	ST
Advantage Income Fund	BA
AFA Distributors 50 Broad Street New York, NY 10004 (212) 482-8100*	
National Aviation & Technology	ST
National Telecom & Technology	ST

ST	Stock fund
BA	Balanced fund
FO	Foreign fund
BD	Bond & preferred fund
MU	Municipal bond fund
MM	Money market fund

*Will accept collect calls.

Distributor	Type of fund
Afuture Fund 617 Willowbrook Lane West Chester, PA 19382 (800) 523-7594	
Afuture Fund	ST
AIM Distributors 11 Greenway Plaza Suite 1919 Houston, TX 77046 (800) 347-1919	
Aim Convertible Securities	BA
Aim Equity–Charter Fund	ST
Aim Equity–Constellation Fund	ST
Aim Equity–Weingarten Equity Fund	ST
Aim High Yield Securities	BD
Aim Summit Fund	ST
Fred Alger & Co 75 Maiden Lane New York, NY 10038 (800) 992-3863	
Alger Fund–Growth	ST
Alger Fund–Small Capitalization	ST
Alliance Fund Services 500 Plaza Drive Secaucus, NJ 07094 (201) 319-4000* (local); (800) 221-5672	
Alliance Balanced Shares	BA
Alliance Bond–High Yield	BD
Alliance Bond–Monthly Income Shs	BD
Alliance Bond–US Government	BD
Alliance Capital Reserves	MM
Alliance Convertible Fund	BA
Alliance Counterpoint Fund	ST
Alliance Fund	ST
Alliance Global–Canadian Fund	FO
Alliance Government Reserves	MM
Alliance Growth & Income	ST
Alliance International Fund	FO
Alliance Money Reserves	MM
Alliance Mortgage Securities Income	BD
Alliance Muni Income–Calif	MU
Alliance Muni Income–Ins Calif	MU
Alliance Muni Income–Ins Natl	MU
Alliance Muni Income–National	MU
Alliance Muni Income–NY	MU
Alliance Quasar Fund	ST
Alliance S-T Multi-Market Trust	FO
Alliance Tax-Exempt Res–Calif	MM
Alliance Tax-Exempt Res–General	MM
Alliance Tax Exempt Res–New York	MM
Alliance Technology Fund	ST
Surveyor Fund	ST
AMA Advisers PO Box 1111 Blue Bell, PA 19422 (215) 825-0400* (local); (800) 523-0864	
AMA Family of Funds–Classic Growth	ST
AMA Family of Funds–Global Growth	FO
AMA Family of Funds–Growth + Inc	ST
AMA Family of Funds–US Govt Inc +	BD

Distributor	Type of fund
American Capital Marketing 2800 Post Oak Boulevard Houston, TX 77056 (800) 421-5666	
American Capital Comstock Fund	ST
American Capital Corp Bond Fund	BD
American Capital Enterprise Fund	ST
American Capital Equity Income	BA
American Capital Government Secs	BD
American Capital Harbor Fund	BA
American Capital High Yield Inv	BD
American Capital Muni Bond Fund	MU
American Capital Pace Fund	ST
American Capital Tax-Ex–Hi Yld	MU
American Capital Venture Fund	ST
Fund of America	ST
American Funds Group 135 South State College Boulevard Brea, CA 92621 (714) 671-7000* (local); (800) 421-9900	
Amcap Fund	ST
American Balanced Fund	BA
American Income-US Govt Guar	BD
American Funds Tax-Exempt I–Md	MU
American Funds Tax-Exempt I–Va	MU
American Funds Tax-Exempt II–Calif	MU
American High-Income Trust	BD
American Mutual Fund	ST
Bond Fund of America	BD
Capital Income Builder	ST
Capital World Bond Fund	FO
Cash Management Trust of America	MM
EuroPacific Growth Fund	FO
Fundamental Investors	ST
Growth Fund of America	ST
Income Fund of America	BA
Intermediate Bond Fund of America	BD
Investment Co of America	ST
New Economy Fund	ST
New Perspective Fund	ST
Tax-Exempt Bond Fund of America	MU
Washington Mutual Investors	ST
American Growth Fund Sponsors 410 17th Street Suite 800 Denver, CO 80202 (303) 623-6137* (local); (800) 525-2406	
American Growth Fund	ST
American Investors PO Box 2500 Greenwich, CT 06836 (203) 531-5000* (local); (800) 243-5353	
American Investors Growth Fund	ST
American Pension Distributors PO Box 2529 Lynchburg, VA 24501 (800) 533-4115 (local); (800) 544-6060	
API Trust–Growth	ST

Distributor	Type of fund
AMEV Investors PO Box 64284 St Paul, MN 55164 (612) 738-4000* (local); (800) 800-2638	
AMEV Advantage–Asset Allocation	BA
AMEV Advantage–Capital Apprec	ST
AMEV Capital Fund	ST
AMEV Fiduciary Fund	ST
AMEV Growth Fund	ST
AMEV Tax-Free Fund–Minnesota	MU
AMEV US Govt Securities Fund	BD
Amway Management Co 7575 East Fulton Road Ada, MI 49355 (800) 346-2670	
Amway Mutual Fund	ST
Analytic Optioned Equity Fund 2222 Martin Street Suite 230 Irvine, CA 92715 (714) 833-0294*	
Analytic Optioned Equity Fund	ST
Angeles Securities 10301 West Pico Boulevard Los Angeles, CA 90064 (213) 277-4900* (local); (800) 421-4374	
FPA Capital Fund	ST
FPA New Income Fund	BD
FPA Paramount Fund	ST
FPA Perennial Fund	ST
Aquila Distributors 200 Park Avenue Suite 4515 New York, NY 10017 (212) 697-6666* (local); (800) 228-4227	
Churchill Tax-Free Fund of Kentucky	MU
Hawaiian Tax-Free Trust	MU
Tax-Free Fund of Colorado	MU
Tax-Free Trust of Arizona	MU
Tax-Free Trust of Oregon	MU
Armstrong Associates 1445 Ross Avenue LB 212 Dallas, TX 75202 (214) 720-9101	
Armstrong Associates	ST
Associated Planners Security 925 Century Park East Suite 1900 Los Angeles, CA 90067 (213) 553-6740* (local); (800) 950-2748	
Associated Planners Stock Fund	ST
Axe Securities Corp 100 Benedict Avenue Tarrytown, NY 10591 (914) 333-5200* (local); (800) 669-0333	
Axe-Houghton Fund B	BA
Axe-Houghton Income Fund	BD
Axe-Houghton Stock Fund	ST

Distributor	Type of fund
Bailard, Biehl & Kaiser 2755 Campus Drive Suite 300 San Mateo, CA 94403 (415) 571-5800* (local); (800) 882-8383	
Bailard Biehl & Kaiser Diversa Fund	BA
Robert W Baird & Co 777 East Wisconsin Avenue Milwaukee, WI 53202 (414) 765-3500* (local); (800) 792-2473	
Baird Blue Chip Fund	ST
Baird Capital Development Fund	ST
Baron Asset Fund 450 Park Avenue New York, NY 10022 (212) 759-7700 (local); (800) 992-2766	
Baron Asset Fund	ST
Bartlett Capital Trust 36 East Fourth Street Cincinnati, OH 45202 (800) 327-4363 (local); (800) 543-0863	
Bartlett Capital Trust–Basic Value	ST
Bartlett Capital Trust–Fixed Income	BD
Baxter Financial 1200 North Federal Highway Suite 424 Boca Raton, FL 33432 (407) 395-2155 (local); (800) 749-9933	
Eagle Growth Shares	ST
Philadelphia Fund	ST
Beacon Hill Mutual Fund 75 Federal Street Boston, MA 02110 (617) 482-0795	
Beacon Hill Mutual Fund	ST
Beckerman & Co 26 Broadway Suite 205 New York, NY 10004 (212) 248-8080 (local); (800) 543-2620	
44 Wall Street Equity Fund	ST
44 Wall Street Fund	ST
Benham Capital Management 1665 Charleston Road Mountain View, CA 94043 (800) 321-8321	
Benham Calif Tax-Free–High Yield	MU
Benham Calif Tax-Free–Insured	MU
Benham Calif Tax-Free–Intermediate	MU
Benham Calif Tax-Free–Long-Term	MU
Benham Calif Tax-Free–MM	MM
Benham Gold Equities Index	ST
Benham Government Inc–GNMA	BD
Benham Target Maturities–2015	BD
Benham Treasury Note Fund	BD
Capital Preservation Fund	MM
Capital Preservation Fund II	MM
Berger Associates 899 Logan Street Suite 211 Denver, CO 80203 (303) 837-1020* (local); (800) 333-1001	
Berger One Hundred Fund	ST

Distributor	Type of fund
Sanford C Bernstein & Co 767 Fifth Avenue New York, NY 10153 (212) 486-5864	
Bernstein Diversified Muni	MU
Bernstein Govt Short Duration	BD
Bernstein Intermediate Duration	BD
Bernstein New York Muni	MU
Bernstein Short Duration Plus	BD
Berwyn Fund 1189 Lancaster Avenue Berwyn, PA 19312 (215) 640-4330*	
Berwyn Fund	ST
Boston Co Funds Distributor Exchange Place One Boston Place Boston, MA 02108 (800) 225-5267	
Boston Co Capital Appreciation Fund	ST
Boston Co Inv–Asset Allocation	BA
Boston Co Inv–International	FO
Boston Co Managed Income Fund	BD
Boston Co Tax-Free Muni–Mass Money	MM
Boston Co Special Growth Fund	ST
Brandywine Fund PO Box 4166 Greenville, DE 19807 (302) 656-6200	
Brandywine Fund	ST
Bridges Investment Fund 8401 West Dodge Road Omaha, NE 68114 (402) 397-4700	
Bridges Investment Fund	ST
Clayton Brown & Associates 500 West Madison Suite 3000 Chicago, IL 60606 (312) 559-3007 (local); (800) 621-4770	
First Trust–US Government	BD
Alex Brown & Sons 135 East Baltimore Street Baltimore, MD 21202 (301) 727-1700 (local); (800) 767-3524	
Alex Brown Cash Reserve–Prime	MM
Flag Investors Emerging Growth	ST
Flag Investors International Trust	FO
Flag Investors T-F Cash Reserve Shs	MM
Flag Investors Telephone Income	ST
Flag Investors Total Return US Treas	BD
CJ Lawrence Total Return US Treas	BD
Bruce Fund 20 North Wacker Drive Suite 1425 Chicago, IL 60606 (312) 236-9160	
Bruce Fund	BA

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Fund Distributors

Distributor	Type of fund
Bull & Bear Group 11 Hanover Square New York, NY 10005 (212) 363-1100* (local); (800) 847-4200	
Bull & Bear Capital Growth Fund	ST
Bull & Bear Equity-Income Fund	ST
Bull & Bear Finl News Composite	ST
Bull & Bear Gold Investors	FO
Bull & Bear Special Equities Fund	ST
Burnham Securities 60 Broad Street 22nd Floor New York, NY 10004 (212) 483-1461	
Burnham Fund	ST
Fenimore International Fund Equity	FO
Calamos Financial Services 2001 Spring Road Suite 750 Oakbrook, IL 60521 (708) 571-7115 (local); (800) 323-9943	
Calamos Convertible Income	BA
California Investment Trust 44 Montgomery Street Suite 2200 San Francisco, CA 94104 (415) 398-2727 (local); (800) 826-8166	
California Tax-Free Income	MU
California Tax-Free MM	MM
Calvert Group 1700 Pennsylvania Avenue NW Washington, DC 20006 (301) 951-4820* (local); (800) 368-2748	
Calvert Ariel Growth Fund	ST
Calvert Fund–Capital Value	ST
Calvert Fund–Income	BD
Calvert–Washington Area Growth	ST
Calvert Social Inv–Equity	ST
Calvert Social Inv–Managed Growth	BA
Calvert Tax-Free Reserves–Limited	MU
Calvert Tax-Free Reserves–MM	MM
Capstone Asset Planning Co PO Box 3167 Houston, TX 77253-3167 (713) 750-8000 (local); (800) 262-6631	
Capstone EquityGuard Stock	ST
Capstone Intl–European Plus	FO
Cashman Farrell Value Fund	ST
Fund of the Southwest	ST
PBHG Growth Fund	ST
US Trend Fund	ST
Cardinal Group of Funds 155 East Broad Street Mezzanine Level Columbus, OH 43215 (614) 464-6852 (local); (800) 848-7734	
Cardinal Fund	ST
Cardinal Government Guaranteed	BD
Cardinal Government Securities	MM

Distributor	Type of fund
Carillon Investments PO Box 5304 Cincinnati, OH 45201 (513) 595-2600	
Carillon Inv Trust–Capital Fund	BA
Carnegie Fund Distributors 1228 Euclid Avenue Cleveland, OH 44115 (216) 781-4440* (local); (800) 321-2322	
Carnegie-Cappiello–Growth	ST
Carnegie-Cappiello–Total Return	ST
Carnegie Tax-Free Income Trust	MM
Liquid Capital Income Trust	MM
Centennial Capital Corp 3410 South Galena Street Denver, CO 80231 (800) 356-3556 (local); (800) 525-7048	
Centennial Tax-Exempt Trust	MM
Daily Cash Accumulation Fund	MM
Century Shares Trust One Liberty Square Boston, MA 02109 (617) 482-3060* (local); (800) 321-1928	
Century Shares Trust	ST
Cigna Mutual Funds 1350 Main Street Springfield, MA 01103 (413) 784-0100	
Cigna Aggressive Growth Fund	ST
Cigna Growth Fund	ST
Cigna High Yield Fund	BD
Cigna Income Fund	BD
Cigna Municipal Bond Fund	MU
Cigna Utilities	ST
Cigna Value Fund	ST
Colonial Investment Services One Financial Center Boston, MA 02111 (617) 426-3750* (local); (800) 225-2365	
Colonial Advanced Strategies Gold	BA
Colonial California Tax-Exempt	MU
Colonial Fund	BA
Colonial Government Securities Plus	BD
Colonial Growth Shares Trust	ST
Colonial High Yield Securities	BD
Colonial Income Trust	BD
Colonial International Equity Index	FO
Colonial Massachusetts Tax-Exempt	MU
Colonial New York Tax-Exempt	MU
Colonial Ohio Tax-Exempt Trust	MU
Colonial Small Stock Index Trust	ST
Colonial Strategic Inc–Diversified	ST
Colonial Strategic Inc–Income Plus	ST
Colonial Tax-Exempt Fund	MU
Colonial Tax-Exempt Insured Fund	MU
Colonial US Equity Index Trust	ST
Colonial VIP Equity–Div Return	ST
Colonial VIP Equity–Growth	ST
Colonial VIP Equity–Inflation Hedge	ST

Distributor	Type of fund
Columbia Funds Management Co PO Box 1350 Portland, OR 97207-1350 (800) 547-1707	
Columbia Daily Income Co	MM
Columbia Fixed Income Securities	BD
Columbia Growth Fund	ST
Columbia Municipal Bond Fund	MU
Columbia Special Fund	ST
Common Sense Distributors 3100 Breckinridge Boulevard Building 400 Duluth, GA 30199-0001 (404) 381-2668 (local); (800) 544-5445	
Common Sense–Government	BD
Common Sense–Growth	ST
Common Sense–Growth & Income	ST
Concord Financial Group 156 West 56th Street Suite 1902 New York, NY 10019 (212) 492-1600* (local); (800) 332-3863	
Pacific Horizon–Aggressive Growth	ST
Pacific Horizon–Calif Tax-Ex Bond	MU
Pacific Horizon–Prime	MM
Pacific Horizon–Treasury	MM
Copley Financial Services Corp PO Box 3287 Fall River, MA 02722 (508) 674-8459*	
Copley Fund	ST
Counsellors Securities 466 Lexington Avenue New York, NY 10017-3147 (212) 878-0600 (local); (800) 888-6878	
Counsellors Capital Appreciation	ST
Counsellors Emerging Growth Fund	ST
Counsellors International Equity	FO
Counsellors New York Tax-Exempt	MM
Country Capital Management Co PO Box 2222 Bloomington, IL 61701 (309) 557-3790	
Country Capital Growth Fund	ST
Country Capital Income Fund	BA
Cowen & Co Financial Square New York, NY 10005 (212) 495-6000 (local); (800) 221-5616	
Cowen Income + Growth Fund	ST
Cowen Opportunity Fund	ST
Standby Reserve Fund	MM
Craig-Hallum 701 Fourth Avenue South 10th Floor Minneapolis, MN 55415 (612) 332-1212 (local); (800) 331-4923	
General Securities	ST

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istributor	Type of fund
ain Bosworth)0 North Milwaukee Street lilwaukee, WI 53202 14) 347-7276 (local); (800) 432-7856	
eartland Group–Value Fund	ST
ean Witter Reynolds wo World Trade Center 5th Floor ew York, NY 10048 12) 392-2500 (local); (800) 869-3863	
ctive Assets Money Trust	MM
ctive Assets Tax-Free Trust	MM
ean Witter American Value Fund	ST
ean Witter Calif Tax-Free Daily	MM
ean Witter Calif Tax-Free Income	MU
ean Witter Convertible Secs	BA
ean Witter Developing Growth Secs	ST
ean Witter Dividend Growth Secs	ST
ean Witter Government Secs Plus	BD
ean Witter High Yield Secs	BD
ean Witter Intermediate Income	BD
ean Witter Managed Assets	BA
ean Witter Natural Resource Dev	ST
ean Witter NY Tax-Free Income	MU
ean Witter Option Income Trust	ST
ean Witter/Sears Liquid Asset	MM
ean Witter/Sears Tax-Free Daily Inc	MM
ean Witter/Sears US Govt MM	MM
ean Witter Strategist	BA
ean Witter Tax-Exempt Secs	MU
ean Witter US Govt Securities	BD
ean Witter Utilities Fund	ST
ean Witter Value-Added Mkt	ST
ean Witter World Wide Investment	FO
ean Witter Worldwide Income	FO
laware Distributors Penn Center Plaza iladelphia, PA 19103 5) 988-1333 (local); (800) 523-4640	
laware Group Cash Reserve	MM
laware Group Decatur Fund–I	ST
laware Group Decatur Fund–II	ST
laware Group Delaware Fund	BA
laware Group DelCap Fund–I	ST
laware Group Delchester H-Y–I	BD
laware Group Govt–Govt Inc	BD
laware Group Tax-Free Fund–USA	MU
laware Group Treasury–Investors	BD
laware Group Trend Fund	ST
laware Group Value Fund	ST
IC Tax-Free Income Trust–PA	MU
versified Securities Box 357 ng Beach, CA 90801 3) 595-7711*	
estors Research Fund	ST
idend Growth Fund 7 North Adams Street ckville, MD 20850 1) 251-1002* (local); (800) 638-2042	
idend/Growth–Dividend	ST

Distributor	Type of fund
Dodge & Cox One Post Street 35th Floor San Francisco, CA 94104 (415) 434-0311	
Dodge & Cox Balanced Fund	BA
Dodge & Cox Stock Fund	ST
Dreyfus Service Corp 144 Glenn Curtiss Boulevard Uniondale, NY 11556-0144 (718) 895-1206 (local); (800) 782-6620	
Dreyfus A Bonds Plus	BD
Dreyfus California Tax-Exempt Bond	MU
Dreyfus California Tax-Exempt MM	MM
Dreyfus Capital Value Fund	ST
Dreyfus Convertible Securities Fund	BA
Dreyfus Fund	ST
Dreyfus GNMA Fund	BD
Dreyfus Growth Opportunity Fund	ST
Dreyfus Index Fund	ST
Dreyfus Insured Tax-Exempt Bond	MU
Dreyfus Intermediate Tax-Ex Bond	MU
Dreyfus Leverage Fund	ST
Dreyfus Liquid Assets	MM
Dreyfus Massachusetts Tax-Ex Bond	MU
Dreyfus MM Instruments–Govt Secs	MM
Dreyfus New Jersey Tax-Exempt Bond	MU
Dreyfus New Jersey Tax-Exempt MM	MM
Dreyfus New Leaders Fund	ST
Dreyfus NY Insured Tax-Exempt Bond	MU
Dreyfus NY Tax-Exempt Bond Fund	MU
Dreyfus NY Tax-Ex Intermed Bond	MU
Dreyfus NY Tax-Exempt MM	MM
Dreyfus Strategic Aggressive Inv LP	ST
Dreyfus Strategic Investing	ST
Dreyfus Strategic World Investing LP	FO
Dreyfus Tax-Exempt Bond Fund	MU
Dreyfus Tax-Exempt Money Market	MM
Dreyfus Third Century Fund	ST
Dreyfus Worldwide Dollar MM	MM
First Prairie Diversified Asset Fund	BA
First Prairie MM–Government	MM
First Prairie Tax-Exempt MM	MM
General Aggressive Growth	ST
General Calif Municipal MM	MM
General Money Market Fund	MM
General NY Municipal Bond	MU
General NY Municipal MM	MM
General Tax-Exempt Bond Fund	MU
General Tax-Exempt Money Market	MM
Premier Calif Tax-Exempt Bond	MU
Premier NY Tax-Exempt Bond	MU
Premier State Tax-Exempt Conn	MU
Premier State Tax-Exempt–Fla	MU
Premier State Tax-Exempt–Md	MU
Premier State Tax-Exempt–Mass	MU
Premier State Tax-Exempt–Mich	MU
Premier State Tax-Exempt–Minn	MU
Premier State Tax-Exempt–Ohio	MU
Premier State Tax-Exempt–Penn	MU
Premier Tax-Exempt Bond	MU
Westwood Fund	ST

Distributor	Type of fund
Dupree Investment Advisors PO Box 1149 Lexington, KY 40589 (800) 432-9518	
Dupree–Kentucky Tax-Free Income	MU
Eaton Vance Distributors 24 Federal Street Boston, MA 02110 (617) 482-8260 (local); (800) 225-6265	
Eaton Vance California Municipals	MU
Eaton Vance Equity-Income Trust	ST
Eaton Vance Government Obligations	BD
Eaton Vance Growth Fund	ST
Eaton Vance High Income Trust	BA
Eaton Vance High Yield Municipals	MU
Eaton Vance Income Fund of Boston	BA
Eaton Vance Investors Fund	BA
Eaton Vance Special Equities Fund	ST
Eaton Vance Stock Fund	ST
Eaton Vance Total Return Trust	ST
Nautilus Fund	ST
Vance, Sanders Special Fund	ST
Eclipse Financial Services PO Box 2196 Peachtree City, GA 30269 (404) 631-0414 (local); (800) 872-2710	
Eclipse Financial Asset Trust–Equity	ST
Enterprise Fund Distributors 1200 Ashwood Parkway Suite 290 Atlanta, GA 30338 (404) 396-8118* (local); (800) 432-4320	
Enterprise Group–Capital Apprec	ST
Enterprise Group–Growth	ST
Enterprise Group–Growth & Income	ST
Enterprise Group–International Grow	FO
Enterprise Group–Precious Metals	FO

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Distributor	Type of fund
EQSF Advisers 767 Third Avenue 5th Floor New York, NY 10017 (212) 888-6685 (local); (800) 834-3400	
Equity Strategies Fund	ST
Equitable Funds 1755 Broadway Location 3D New York, NY 10019 (212) 641-8100 (local); (800) 541-2150	
Equitable Funds–Balanced Fund	BA
Equitable Funds–Growth	ST
Equitec Securities PO Box 2470 7677 Oakport Street Oakland, CA 94614 (415) 430-9900 (local); (800) 869-8007	
Equitec Siebel Aggressive Growth	ST
Equitec Siebel Total Return Fund	ST
Equitec Siebel US Government Secs	BD
Equity Services National Life Drive Montpelier, VT 05604 (802) 229-3900* (local); (800) 233-4332	
Sentinel Balanced Fund	BA
Sentinel Bond Fund	BD
Sentinel Common Stock Fund	ST
Sentinel Growth Fund	ST
Excel Advisors 16955 Via Del Campo Suite 120 San Diego, CA 92127 (619) 485-9400 (local); (800) 783-3444	
Excel Midas Gold Shares & Bullion	ST
Excel Value Fund	ST
Fairfield Group 200 Gibraltar Road Horsham, PA 19044 (800) 222-3429 (local); (800) 441-3885	
St Clair Equity–Capital Growth Fund	ST
Viking Equity Index Fund–General	ST
Fairmont Fund 1346 South Third Street Louisville, KY 40208 (502) 636-5633 (local); (800) 262-9936	
Fairmont Fund	ST
FBL Investment Advisory Svcs 5400 University Avenue West Des Moines, IA 50265 (800) 422-3175 (local); (800) 247-4170	
FBL–Growth Common Stock	ST

Distributor	Type of fund
Federated Securities Corp Federated Tower Pittsburgh, PA 15222-3779 (412) 288-1900* (local); (800) 245-2423	
American Leaders Fund	ST
Convertible Securities & Income	BA
Federated GNMA Trust	BD
Federated Growth Trust	ST
Federated High Income Securities	BD
Federated High Yield Trust	BD
Federated Income Trust	BD
Federated Intermediate Government	BD
Federated Short-Intermed Govt	BD
Federated Stock & Bond Fund	BA
Federated Stock Trust	ST
Federated Tax-Free Income Fund	MU
Federated Tax-Free Trust	MM
Fortress High Quality Stock Fund	ST
Fortress Utility Trust	ST
FT International	FO
Fund for US Govt Securities	BD
Government Income Securities	BD
Investment Series–High Quality Stk	ST
Liberty US Govt Money Market	MM
Liberty Utility Fund	ST
AT Ohio Tax-Free Money Fund	MM
Salem Funds–Growth	ST
Tax-Free Instruments Trust	MM
Tower–Capital Appreciation	ST
Fidelity Distributors Corp 82 Devonshire Street Boston, MA 02109 (617) 570-6200* (local); (800) 544-6666	
Fidelity Asset Manager	BA
Fidelity Balanced Fund	BA
Fidelity Blue Chip Growth Fund	ST
Fidelity Calif Tax-Free–Insured	MU
Fidelity Calif Tax-Free–High Yield	MU
Fidelity Calif Tax-Free–MM	MM
Fidelity Canada Fund	FO
Fidelity Capital Appreciation	ST
Fidelity Cash Reserves	MM
Fidelity Connecticut Muni–High Yld	MU
Fidelity Contrafund	ST
Fidelity Convertible Securities Fund	BA
Fidelity Daily Income Trust	MM
Fidelity Destiny Portfolio I	ST
Fidelity Destiny Portfolio II	ST
Fidelity Disciplined Equity	ST
Fidelity Equity Income Fund	ST
Fidelity Europe Fund	FO
Fidelity Flexible Bond Fund	BD
Fidelity Freedom Fund	ST
Fidelity Fund	ST
Fidelity Ginnie Mae	BD
Fidelity Global Bond Fund	FO
Fidelity Government Securities Fund	BD
Fidelity Growth & Income	ST
Fidelity Growth Company	ST
Fidelity High Income Fund	BD
Fidelity Intermediate Bond Fund	BD
Fidelity International Growth & Inc	FO
Fidelity Magellan Fund	ST

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Distributor	Type of fund
Fidelity Mass Tax-Free–High Yield	MU
Fidelity Mass Tax-Free–MM	MM
Fidelity Mortgage Securities	BD
Fidelity New Jersey T-F High Yield	MU
Fidelity New Jersey T-F–MM	MM
Fidelity NY Tax-Free–High Yield	MU
Fidelity NY Tax-Free–Insured	MU
Fidelity NY Tax-Free–Money Market	MM
Fidelity OTC Portfolio	ST
Fidelity Overseas Fund	FO
Fidelity Pacific Basin Fund	FO
Fidelity Plymouth–Growth Oppor	ST
Fidelity Plymouth–Income & Grow	ST
Fidelity Puritan Fund	BA
Fidelity Real Estate Investment	ST
Fidelity Select–Air Transportation	ST
Fidelity Select–American Gold	ST
Fidelity Select–Biotechnology	ST
Fidelity Select–Broadcast & Media	ST
Fidelity Select–Brokerage & Inv	ST
Fidelity Select–Capital Goods	ST
Fidelity Select–Chemicals	ST
Fidelity Select–Computers	ST
Fidelity Select–Electric Utilities	ST
Fidelity Select–Electronics	ST
Fidelity Select–Energy	ST
Fidelity Select–Energy Service	ST
Fidelity Select–Environment Serv	ST
Fidelity Select–Financial Services	ST
Fidelity Select–Food & Agriculture	ST
Fidelity Select–Health Care	ST
Fidelity Select–Industrial Materials	ST
Fidelity Select–Leisure	ST
Fidelity Select–Medical Delivery	ST
Fidelity Select–Money Market	MM
Fidelity Select–Paper & Forest Prod	ST
Fidelity Select–Prec Metals & Mins	ST
Fidelity Select–Prop & Casualty	ST
Fidelity Select–Regional Banks	ST
Fidelity Select–Retailing	ST
Fidelity Select–Savings & Loan	ST
Fidelity Select–Software & Computer	ST
Fidelity Select–Technology	ST
Fidelity Select–Telecommunications	ST
Fidelity Select–Utilities	ST
Fidelity Short-Term Bond	BD
Fidelity Spartan Government Fund	BD
Fidelity Spartan Limited Mat Govt	BD
Fidelity Spartan Money Market Fund	MM
Fidelity Spartan Penn Muni–MM	MM
Fidelity Spartan Penn Muni–High Yld	MU
Fidelity Special Situations–Initial	ST
Fidelity Special Situations–Plymouth	ST
Fidelity State T-F–Michigan High Yld	MU
Fidelity State T-F–Minnesota Hi Yld	MU
Fidelity State T-F–Ohio High Yield	MU
Fidelity Tax-Exempt–Money Market	MM
Fidelity Tax-Free–Aggressive	MU
Fidelity Tax-Free–High Yield	MU
Fidelity Tax-Free–Insured	MU
Fidelity Tax-Free–Ltd Term Munis	MU
Fidelity Tax-Free–Municipal Bond	MU
Fidelity Trend Fund	ST
Fidelity US Government Reserves	MM
Fidelity Utilities Income	ST
Fidelity Value Fund	ST
Fiduciary Management 55 East Mason Street Milwaukee, WI 53202 (414) 226-4556* (local); (800) 338-1579	
Fiduciary Capital Growth Fund	ST
Reynolds Blue Chip Growth Fund	ST

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Fund Distributors

Distributor	Type of fund
Financial Programs PO Box 2040 Denver, CO 80201 (303) 779-1233 (local); (800) 525-8085	
Financial Bond Shs–Select Income	BD
Financial Dynamics Fund	ST
Financial Industrial Fund	ST
Financial Industrial Income Fund	ST
Financial Strategic–Energy	ST
Financial Strategic–European	FO
Financial Strategic–Gold	ST
Financial Strategic–Health Science	ST
Financial Strategic–Leisure	ST
Financial Strategic–Pacific Basin	FO
Financial Strategic–Technology	ST
Financial Strategic–Utilities	ST
Financial Tax-Free Income Shares	MU
First Eagle Fund of America 45 Broadway New York, NY 10006 (212) 943-9200* (local); (800) 451-3623	
First Eagle Fund of America	ST
First Investors Management Co 10 Woodbridge Center Drive Woodbridge, NJ 07095 (212) 208-6000 (local); (800) 423-4026	
First Investors Blue Chip	ST
First Investors Fund for Income	BD
First Investors Global Fund	FO
First Investors Government Fund	BD
First Investors High Yield Fund	BD
First Investors Insured Tax-Exempt	MU
First Investors M-S Insured T-F–NJ	MU
First Investors NY Insured T-F	MU
Flagship Financial One First National Plaza Suite 910 Dayton, OH 45402 (800) 354-7447 (local); (800) 227-4648	
Flagship Tax-Exempt–Ariz Double	MU
Flagship Tax-Exempt–Conn Double	MU
Flagship Tax-Exempt–Ga Double	MU
Flagship Tax-Exempt–Kent Triple	MU
Flagship Tax-Exempt–Mich Triple	MU
Flagship Tax-Exempt–NC Triple	MU
Flagship Tax-Exempt–Ohio Double	MU
Flagship Tax-Exempt–Penn Triple	MU
Flagship Tax-Exempt–Tenn Double	MU
Flagship Tax-Exempt–Va Double	MU
Flex Funds PO Box 7177 Dublin, OH 43017 (614) 766-7000* (local); (800) 325-3539	
Flex-funds–Growth Fund	ST
Flex-funds–Muirfield Fund	ST
Founders Asset Management 3033 East First Avenue Suite 810 Denver, CO 80206 (303) 394-4404 (local); (800) 525-2440	
Founders Blue Chip	ST
Founders Equity Income Fund	ST
Founders Frontier Fund	ST
Founders Growth Fund	ST
Founders Special Fund	ST

Distributor	Type of fund
Frank Russell Company 909 A Street 6th Floor Tacoma, WA 98402 (800) 235-4331	
Laurel Fund–Stock	ST
Franklin Distributors 777 Mariner's Island Boulevard 6th Floor San Mateo, CA 94404-1585 (800) 342-5236 (local); (800) 632-2180	
Franklin Adjustable US Govt Secs	BD
Franklin AGE High Income Fund	BD
Franklin Alabama Tax-Free Income	MU
Franklin Arizona Tax-Free Income	MU
Franklin Calif Insured Tax-Free Inc	MU
Franklin Calif Tax-Exempt Money	MM
Franklin Calif Tax-Free Income	MU
Franklin Colorado Tax-Free Income	MU
Franklin Connecticut Tax-Free Inc	MU
Franklin Convertible Securities Fund	BA
Franklin DynaTech Fund	ST
Franklin Equity Fund	ST
Franklin Federal Tax-Free Income	MU
Franklin Florida Tax-Free Income	MU
Franklin Gold Fund	FO
Franklin Growth Fund	ST
Franklin High Yield Tax-Free Income	MU
Franklin Income Fund	BA
Franklin Insured Tax-Free Income	MU
Franklin Managed Rising Dividends	ST
Franklin Mass Insured Tax-Free Inc	MU
Franklin Mich Insured Tax-Free Inc	MU
Franklin Minn Insured Tax-Free Inc	MU
Franklin Missouri Tax Free Income	MU
Franklin Money Fund	MM
Franklin New Jersey Tax-Free Income	MU
Franklin New York Tax-Ex Money	MM
Franklin New York Tax-Free Income	MU
Franklin North Carolina Tax-Free Inc	MU
Franklin Ohio Insured Tax-Free Inc	MU
Franklin Option Fund	ST
Franklin Oregon Tax-Free Income	MU
Franklin Pennsylvania Tax-Free Inc	MU
Franklin PR Tax-Free Income Fund	MU
Franklin Special Equity Income	ST
Franklin Tax-Exempt Money Fund	MM
Franklin US Government Securities	BD
Franklin Utilities Fund	ST
Franklin Virginia Tax-Free Income	MU
Freedom Capital Management Corp One Beacon Street 4th Floor Boston, MA 02108 (800) 392-6037 (local); (800) 225-6258	
Freedom Cash Management	MM
Freedom Inv–Equity Value	ST
Freedom Inv–Gold & Government	ST
Freedom Inv–Government Income	BD
Freedom Inv–Managed Tax-Exempt	MU
Freedom Inv–Regional Bank	ST
Freedom Inv II–Global Fund	FO
Freedom Inv II–Global Income	FO
Freedom Tax-Exempt Money	MM
Tocqueville Fund	ST

Distributor	Type of fund
Fundamental Services 111 Broadway Suite 1107 New York, NY 10006 (212) 608-6864* (local); (800) 225-6864	
New York Muni Fund	MU
Furman Selz Mager Dietz & Birney 230 Park Avenue New York, NY 10169 (212) 309-8400* (local); (800) 845-8406	
FFB Funds–Cash Management	MM
FFB Funds–Tax-Free Money Market	MM
Olympus Equity Plus Fund	ST
Olympus Premium Income	ST
Olympus Tax-Exempt California	MU
Gabelli & Company PO Box 1634 Grand Central Station New York, NY 10163 (212) 490-3670 (local); (800) 422-3554	
Gabelli Asset Fund	ST
Gabelli Growth Fund	ST
GAM Funds 135 East 57th Street New York, NY 10022 (212) 888-4200* (local); (800) 327-6143	
GAM Global Fund	FO
GAM International Fund	FO
GAM Pacific Basin Fund	FO
Gateway Investment Advisers PO Box 458167 Cincinnati, OH 45245 (513) 248-2700* (local); (800) 354-6339	
Gateway Growth Plus Fund	ST
Gateway Index Plus Fund	ST
Gintel & Co 6 Greenwich Office Park Greenwich, CT 06831 (203) 622-6400 (local); (800) 243-5808	
Gintel Capital Appreciation Fund	ST
Gintel Erisa Fund	ST
Gintel Fund	ST
GIT Investment Services 1655 North Fort Myer Drive Arlington, VA 22209 (703) 528-6500 (local); (800) 336-3063	
GIT Equity Trust–Special Growth	ST
Gradison & Co 580 Walnut Street Cincinnati, OH 45202 (800) 869-5999 (local); (800) 869-5666	
Gradison Cash Reserves Trust	MM
Gradison Established Growth Fund	ST
Gradison Opportunity Growth Fund	ST
Greenspring Fund Suite 322, The Quadrangle Village of Cross Keys Baltimore, MD 21210 (301) 435-9000*	
Greenspring Fund	ST

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Distributor	Type of fund
Growth Industry Shares 135 South LaSalle Street Chicago, IL 60603 (312) 346-4830 (local); (800) 635-2886	
Growth Industry Shares	ST
GT Global Financial Services 50 California Street 27th Floor San Francisco, CA 94111-4624 (415) 392-6181* (local); (800) 824-1580	
GT Global Growth–America	ST
GT Global Growth–Europe	FO
GT Global Growth–Intl	FO
GT Global Growth–Japan	FO
GT Global Growth–Pacific	FO
GT Global Growth–Worldwide	FO
GT Investment–Global Bond	FO
GT Investment–Global Govt Income	BD
Guardian Investor Services Corp 201 Park Avenue South New York, NY 10003 (800) 221-3253	
Guardian Park Ave Fund	ST
ohn Hancock Advisors 01 Huntington Avenue 0th Floor Boston, MA 02199 (617) 375-1800 (local); (800) 225-5291	
ohn Hancock Bond Trust	BD
ohn Hancock Global Trust	FO
ohn Hancock Growth Trust	ST
ohn Hancock Special Equities Trust	ST
ohn Hancock Tax-Exempt Income	MU
ohn Hancock US Govt Guar Mort	BD
ohn Hancock US Govt Securities	BD
ohn Hancock World–Pac Basin Eq	FO
Iartwell Funds 30 Park Avenue 3th Floor New York, NY 10169 (212) 309-8400* (local); (800) 624-3863	
Iartwell Emerging Growth	ST
Iartwell Growth Fund	ST
ICA Securities One SeaGate Toledo, OH 43666 (419) 247-2477 (local); (800) 422-1050	
Iarbor Capital Appreciation	ST
Iarbor Growth Fund	ST
Iarbor International	FO
Iarbor Value	ST
eine Management Group O Box 830 Westport, CT 06881 (800) 522-2564 (local); (800) 422-2564	
MH Fund	ST
eine Securities 1 John F Kennedy Parkway hort Hills, NJ 07078 (201) 912-2100* (local); (800) 448-3863	
Iutual Series Fund–Beacon	ST
Iutual Series Fund–Mutual Shares	ST
Iutual Series Fund–Qualified	ST

Distributor	Type of fund
Heritage Asset Management 880 Carillon Parkway St Petersburg, FL 33716 (813) 573-8143 (local); (800) 421-4184	
Heritage Capital Appreciation	ST
Heritage Cash Trust	MM
Heritage Income–Growth Trust	BA
Wayne Hummer & Co 175 West Jackson Boulevard Chicago, IL 60604 (800) 972-5566 (local); (800) 621-4477	
Wayne Hummer Growth Fund	ST
Huntington Investments 251 South Lake Avenue Suite 600 Pasadena, CA 91101 (818) 440-9688* (local); (800) 232-3310	
Huntington CPI+ Fund	BA
International Cash–Global	FO
IAI Funds PO Box 357 Minneapolis, MN 55440 (612) 371-2884	
IAI Apollo	ST
IAI Bond Fund	BD
IAI International Fund	FO
IAI Regional Fund	ST
IAI Stock Fund	ST
Idex Management PO Box 9015 Clearwater, FL 34618 (813) 585-6565 (local); (800) 237-3055	
IDEX Fund	ST
IDEX II	ST
IDEX Fund 3	ST
IDS Financial Services IDS Tower 10 Minneapolis, MN 55440 (612) 372-3733 (local); (800) 328-8300	
IDS Bond Fund	BD
IDS California Tax-Exempt Fund	MU
IDS Cash Management Fund	MM
IDS Discovery Fund	ST
IDS Equity Plus	ST
IDS Extra Income Fund	BD
IDS Federal Income Fund	BD
IDS Growth Fund	ST
IDS High Yield Tax-Exempt Fund	MU
IDS Insured Tax-Exempt Fund	MU
IDS International Fund	FO
IDS Managed Retirement Fund	ST
IDS Michigan Tax-Exempt Fund	MU
IDS Minnesota Tax-Exempt Fund	MU
IDS Mutual	BA
IDS New Dimensions Fund	ST
IDS New York Tax-Exempt Fund	MU
IDS Precious Metals Fund	FO
IDS Progressive Fund	ST
IDS Selective Fund	BD
IDS Stock Fund	ST
IDS Strategy–Aggressive Equity	ST
IDS Strategy–Equity	ST
IDS Strategy–Income	BD
IDS Strategy–Pan Pacific Growth	FO
IDS Tax-Exempt Bond Fund	MU
IDS Tax-Free Money Fund	MM
IDS Utilities Income	ST

Distributor	Type of fund
Investment Trust of Boston 399 Boylston Street Boston, MA 02117 (617) 578-1388* (local); (800) 888-4823	
Inv Trust of Boston–Growth Opport	ST
Inv Trust of Boston–Mass T-F	MU
Investors Security Co 110 Bank Street Suffolk, VA 23434 (804) 539-2396*	
Old Dominion Investors' Trust	ST
Ivy Fund 40 Industrial Park Road Hingham, MA 02043 (617) 749-1416 (local); (800) 235-3322	
Ivy Growth Fund	ST
Ivy Growth with Income Fund	ST
Ivy International Fund	FO
Janus Capital 100 Fillmore Street Suite 300 Denver, CO 80206 (800) 525-3713	
Janus Fund	ST
Janus Twenty Fund	ST
Janus Venture Fund	ST
Jefferson-Pilot Investor Services PO Box 22086 Greensboro, NC 27420 (919) 691-3453 (local); (800) 458-4498	
JP Growth Fund	ST
Jones & Babson 2440 Pershing Road Kansas City, MO 64108 (816) 471-5200* (local); (800) 422-2766	
Babson Bond Trust–Long-Term	BD
Babson Enterprise Fund	ST
Babson Growth Fund	ST
Babson-Stewart Ivory International	FO
Babson Value Fund	ST
Shadow Stock Fund	ST
UMB Bond Fund	BD
UMB Stock Fund	ST

* ll accept collect calls.

Fund Distributors

Distributor	Type of fund
Edward D Jones & Co 201 Progress Parkway Maryland Heights, MO 63043 (314) 851-2000*	
ED Jones Daily Passport Cash Trust	MM
Kaufmann Fund 17 Battery Place Suite 2624 New York, NY 10004 (212) 344-2661 (local); (800) 237-0132	
Kaufmann Fund	ST
Keffer Capital Management 465 Congress Street Portland, ME 04101 (207) 879-1900	
Warburg International Fund	FO
Kemper Financial Services 120 South LaSalle Street Chicago, IL 60603 (312) 781-1121* (local); (800) 621-1048	
Cash Equivalent Fund–Govt	MM
Cash Equivalent Fund–MM	MM
Cash Equivalent Fund–T-E MM	MM
Investment Portfolios–Divers Inc	BD
Investment Portfolios–Equity	ST
Investment Portfolios–Govt	BD
Investment Portfolios–High Yield	BD
Investment Portfolios–Total Return	BA
Kemper Blue Chip Fund	ST
Kemper California Tax-Free Income	MU
Kemper Diversified Income Fund	BD
Kemper Gold Fund	ST
Kemper Growth Fund	ST
Kemper High Yield Fund	BD
Kemper Income & Capital Preserv	BD
Kemper International Fund	FO
Kemper Money Market–Govt Secs	MM
Kemper Money Market–MM	MM
Kemper Money Market–Tax-Exempt	MM
Kemper Municipal Bond Fund	MU
Kemper New York Tax-Free Fund	MU
Kemper Summit Fund	ST
Kemper Technology Fund	ST
Kemper Total Return Fund	BA
Kemper US Government Securities	BD
Tax-Exempt California MM	MM
Keystone Distributors 99 High Street Boston, MA 02110 (617) 338-3200 (local); (800) 343-2898	
Keystone America Equity Income	ST
Keystone America Fund of Grow Stk	ST
Keystone America Omega	ST
Keystone America Tax-Free Income	MU
Keystone Custodian B-1	BD
Keystone Custodian B-2	BD
Keystone Custodian B-4	BD
Keystone Custodian K-1	BA
Keystone Custodian K-2	ST
Keystone Custodian S-1	ST
Keystone Custodian S-3	ST
Keystone Custodian S-4	ST
Keystone International Fund	FO
Keystone Precious Metals	FO
Keystone Tax-Exempt Trust	MU
Keystone Tax-Free Fund	MU

Distributor	Type of fund
Kidder, Peabody & Co 20 Exchange Place New York, NY 10005 (212) 510-5351*	
Kidder, Peabody California T-E MM	MM
Kidder, Peabody Equity Income	ST
Kidder, Peabody Government Income	BD
Kidder, Peabody Premium Account	MM
Kidder, Peabody Special Growth Fund	ST
Kidder, Peabody Tax-Exempt MM	MM
Kidder, Peabody MarketGuard I	ST
Webster Cash Reserve Fund	MM
Kleinwort Benson 200 Park Avenue 24th Floor New York, NY 10166 (212) 687-2515 (local); (800) 237-4218	
Kleinwort Benson–Intl Equity	FO
Landmark Funds Broker Dealer Services 6 St James Avenue 9th Floor Boston, MA 02116 (617) 423-1679* (local); (800) 223-4447	
Landmark Capital Growth Fund	ST
Landmark Growth & Income Fund	ST
Landmark New York T-F Income	MU
Landmark New York T-F Reserves	MM
Landmark Tax-Free Reserves	MM
Legg Mason Wood Walker 111 South Calvert Street 21st Floor Baltimore, MD 21202 (301) 539-3400 (local); (800) 822-5544	
Legg Mason Cash Reserve Trust	MM
Legg Mason Special Investment Trust	ST
Legg Mason Tax-Exempt Trust	MM
Legg Mason Total Return Trust	ST
Legg Mason Value Trust	ST
Lepercq-Istel Trust 1675 Broadway 16th Floor New York, NY 10019 (212) 698-0700	
Lepercq-Istel Fund	ST
Lexington Management Corp PO Box 1515 Park 80 West Plaza II Saddle Brook, NJ 07662 (201) 845-7300* (local); (800) 526-0057	
Lexington Corp Leaders Trust Fund	ST
Lexington Global Fund	FO
Lexington GNMA Income Fund	BD
Lexington Goldfund	ST
Lexington Growth Fund	ST
Lexington Research Fund	ST
Lexington Technical Strategy Fund	ST
Liberty Securities 600 Atlantic Avenue Boston, MA 02210-2214 (800) 542-3863	
Liberty Advantage US Govt Secs	BD

Distributor	Type of fund
Lieber & Co 2500 Westchester Avenue Purchase, NY 10577 (914) 694-2020* (local); (800) 235-0064	
Evergreen American Retirement	ST
Evergreen Fund	ST
Evergreen Global Real Estate	ST
Evergreen Limited Market Fund	ST
Evergreen Tax Exempt MM	MM
Evergreen Tax Exempt MM–Calif	MM
Evergreen Total Return Fund	ST
Evergreen Value Timing Fund	ST
Lincoln Investment Planning 218 Glenside Avenue Wyncote, PA 19095-1595 (800) 242-1421	
Rightime Fund	ST
Rightime Fund Blue Chip	ST
Rightime Fund Growth	ST
Lindner Management Corp PO Box 11208 St Louis, MO 63105 (314) 727-5305	
Lindner Dividend Fund	ST
Lindner Fund	ST
Lord Abbett & Co 767 Fifth Avenue 11th Floor New York, NY 10153-0203 (800) 821-5129 (local); (800) 223-4224	
Affiliated Fund	ST
Lord Abbett Bond-Debenture Fund	BD
Lord Abbett California Tax-Free Inc	MU
Lord Abbett Developing Growth	ST
Lord Abbett Fundamental Value	ST
Lord Abbett Global Fund–Equity	FO
Lord Abbett Tax-Free–National	MU
Lord Abbett Tax-Free–New York	MU
Lord Abbett Tax-Free–Texas	MU
Lord Abbett US Government Secs	BD
Lord Abbett Value Appreciation	ST
Lutheran Brotherhood Securities 625 Fourth Avenue South Minneapolis, MN 55415 (800) 752-4208 (local); (800) 328-4552	
Lutheran Brotherhood Fund	ST
Lutheran Brotherhood High Yield	BD
Lutheran Brotherhood Income Fund	BD
Lutheran Brotherhood Muni Bond	MU
Mackenzie Investment Management PO Box 5007 Boca Raton, FL 33431 (800) 456-5111	
Mackenzie American Fund	ST
Mackenzie Canada Fund	FO
Mackenzie Growth and Income Fund	BA
Mackenzie No Amer Total Return	BA
Madison Investment Advisors 6411 Mineral Point Road Madison, WI 53705 (608) 273-2020* (local); (800) 767-0300	
Bascom Hill Balanced Fund	BA
Bascom Hill Investors	ST

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Distributor	Type of fund
Mairs & Power West-2062 First National Bank Building St Paul, MN 55101 (612) 222-8478	
Mairs & Power Growth Fund	ST
Mairs & Power Income Fund	ST
Horace Mann Growth Fund PO Box 4657 Springfield, IL 62708-4657 (217) 789-2500 (local); (800) 999-1030	
Horace Mann Growth Fund	ST
Massachusetts Financial Services PO Box 2281 Boston, MA 02107 (617) 954-5000* (local); (800) 225-2606	
Mass Capital Development Fund	ST
Mass Cash Management–Prime	MM
Mass Financial Bond Fund	BD
Mass Financial Development Fund	ST
Mass Financial Emerging Growth	ST
Mass Financial High Income–Series I	BD
Mass Financial International-Bond	FO
Mass Financial Special Fund	ST
Mass Financial Total Return Trust	BA
Mass Investors Growth Stock Fund	ST
Mass Investors Trust	ST
MFS Government Guaranteed Secs	BD
MFS Government Income Plus	BD
MFS Government Premium Account	BD
MFS Lifetime Capital Growth Trust	ST
MFS Lifetime Emerging Growth	ST
MFS Lifetime Global Equity Trust	FO
MFS LIfetime Gold & Prec Met	FO
MFS Lifetime Government Inc Plus	BD
MFS Lifetime High Income Trust	BD
MFS Lifetime Managed Muni Bond	MU
MFS Lifetime Managed Sectors Trust	ST
MFS Lifetime Total Return Trust	ST
MFS Managed California Muni Bond	MU
MFS Managed High Yield Muni Bond	MU
MFS Managed M-S Tax-Ex–Md	MU
MFS Managed M-S Tax-Ex–Mass	MU
MFS Managed M-S Tax-Ex–NY	MU
MFS Managed M-S Tax-Ex–NC	MU
MFS Managed M-S Tax-Ex–SC	MU
MFS Managed M-S Tax-Ex–Tenn	MU
MFS Managed M-S Tax-Ex–Va	MU
MFS Managed M-S Tax-Ex–W Va	MU
MFS Managed Muni Bond Trust	MU
MFS Managed Sectors Trust	ST
Mathematical Investment System 1500 Rockside Road Suite 440 Cleveland, OH 44131-6809 (216) 642-3000 (local); (800) 233-1240	
MIM Stock Convert & Option Growth	ST
MIM Stock Convert & Option Income	ST
Mathers Fund 00 Corporate North Suite 201 Bannockburn, IL 60015 (708) 295-7400 (local); (800) 962-3863	
Mathers Fund	ST

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Fund Distributors

Distributor	Type of fund
Meeschaert & Co 28 Hill Farm Road St Johnsbury, VT 05819 (802) 748-2400	
Meeschaert Capital Accumulation	ST
Meridian Fund 60 East Sir Francis Drake Blvd Suite 306 Larkspur, CA 94939 (800) 445-5553 (local); (800) 446-6662	
Meridian Fund	ST
Merrill Lynch Funds Boston One Financial Center 15th Floor Boston, MA 02111 (617) 357-1460 (local); (800) 225-1576	
Merrill Lynch Government Fund	MM
Merrill Lynch Institutional Fund	MM
Merrill Lynch Funds Distributor PO Box 9011 Princeton, NJ 08543-9011 (609) 282-2800* (local); (800) 637-3863	
Merrill Lynch Basic Value Fund	ST
Merrill Lynch Calif Muni Bond	MU
Merrill Lynch Capital Fund	ST
Merrill Lynch Corp–High Income	BD
Merrill Lynch Corp–High Quality	BD
Merrill Lynch Corp–Intermediate	BD
Merrill Lynch Equi-Bond I Fund	BA
Merrill Lynch EuroFund	FO
Merrill Lynch Federal Securities	BD
Merrill Lynch Fund for Tomorrow	ST
Merrill Lynch Global Alloc Fund	FO
Merrill Lynch Global Convertible	FO
Merrill Lynch Intl Holdings	FO
Merrill Lynch Muni–High Yield	MU
Merrill Lynch Muni–Insured	MU
Merrill Lynch Muni–Ltd Maturity	MU
Merrill Lynch Municipal Income	MU
Merrill Lynch Natural Res	ST
Merrill Lynch NY Muni Bond	MU
Merrill Lynch Pacific Fund	FO
Merrill Lynch Phoenix Fund	BA
Merrill Lynch Ready Assets Trust	MM
Merrill Lynch Retire Benefit Inv	BA
Merrill Lynch Retire Equity	ST
Merrill Lynch Retire Global Bond	FO
Merrill Lynch Retire/Income Fund	BD
Merrill Lynch Retire Reserves Money	MM
Merrill Lynch Special Value	ST
Merrill Lynch Strategic Div	ST
Sci/Tech Holdings	ST
Summit Cash Reserves Fund	MM

Distributor	Type of fund
Merrill Lynch, Pierce, Fenner & Smith One Liberty Plaza 165 Broadway New York, NY 10080 (212) 449-8415	
CBA Money Fund	MM
CMA Calif Tax-Exempt	MM
CMA Government Securities Fund	MM
CMA Money Fund	MM
CMA New York Tax-Exempt	MM
CMA Tax-Exempt Fund	MM
Merriman Investment Trust 1200 Westlake Avenue, North Suite 700 Seattle, WA 98109 (206) 285-8877 (local); (800) 423-4893	
Merriman Timed Asset Allocation	BA
Merriman Timed Blue Chip Fund	ST
Merriman Timed Capital Apprec	ST
Mesirow Investment Services 350 North Clark Street Chicago, IL 60610 (312) 670-6035 (local); (800) 458-5222	
Skyline Fund–Balanced	BA
Skyline Fund–Special Equities	ST
MetLife State Street Investment One Financial Center 30th Floor Boston, MA 02111 (617) 348-2000 (local); (800) 882-0052	
MetLife-State Street Cap Apprec	ST
MetLife-State Street Equity Income	ST
MetLife-State Street Equity Inv	ST
MetLife-State Street Government Inc	BD
MetLife-State Street High Income	BD
MetLife-State Street Managed Assets	BA
State Street Investment Trust	ST
MGF Distributors 700 Dixie Terminal Building Cincinnati, OH 45202 (513) 629-2000 (local); (800) 543-8721	
Midwest Group Tax-Free–Ohio MM	MM
Midwest Income–Intermediate Govt	BD
Midwest Strategic Trust–Growth	ST
MidAmerica Management 4333 Edgewood Road NE Cedar Rapids, IA 52499 (800) 288-2346 (local); (800) 288-2346	
MidAmerica High Growth Fund	ST
MidAmerica Mutual Fund	ST
Mimlic Sales Corp 400 North Robert Street St Paul, MN 55101 (800) 443-3677	
Mimlic Asset Allocation Fund	BA
Mimlic Investors Fund I	ST

Distributor	Type of fund
MML Investor Services 1350 Main Street Springfield, MA 01103 (800) 854-9100 (local); (800) 542-6767	
MassMutual Integrity–Balanced Fund	BA
MassMutual Integrity–Cap Apprec	ST
MassMutual Integrity–Value Stock	ST
Morgan Keegan & Co 50 North Front Street Memphis, TN 38103 (901) 524-4100 (local); (800) 366-7426	
Morgan Keegan Southern Capital	ST
Murphey Favre West 601 Riverside Avenue Spokane, WA 99201 (509) 353-3550 (local); (800) 543-8072	
Composite Bond & Stock Fund	BA
Composite Growth Fund	ST
Composite Income Fund	BD
Composite Northwest 50 Fund	ST
Composite Tax-Exempt Bond Fund	MU
Mutual Benefit Financial Services Co 520 Broad Street Newark, NJ 07101 (201) 481-8000* (local); (800) 333-4726	
Mutual Benefit Fund	ST
Mutual of Omaha Fund Management 10235 Regency Circle Omaha, NE 68114 (800) 642-8112 (local); (800) 228-9596	
Mutual of Omaha America Fund	BD
Mutual of Omaha Growth Fund	ST
Mutual of Omaha Income Fund	BA
Mutual of Omaha Tax-Free Income	MU
National Financial Data Service PO Box 26070 Kansas City, MO 64196-7070 (816) 435-1700 (local); (800) 225-8011	
Neuwirth Fund	ST
Pine Street Fund	ST
Winthrop Focus Funds–Growth	ST
National Securities & Research Corp 2 Pickwick Plaza Greenwich, CT 06830 (203) 863-5600* (local); (800) 223-7757	
California Tax-Exempt Bonds	MU
National Aggressive Growth Fund	ST
National Bond Fund	BD
National Federal Securities Trust	BD
National Real Estate Stock Fund	ST
National Stock Fund	ST
National Strategic Allocation Fund	BA
National Total Income Fund	BA
National Total Return Fund	BA

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Distributor	Type of fund
Nationwide Financial Services One Nationwide Plaza Columbus, OH 43216 (800) 848-0920	
Nationwide Bond Fund	BD
Nationwide Fund	ST
Nationwide Growth Fund	ST
Nationwide Money Market Fund	MM
Neuberger & Berman Management 342 Madison Avenue New York, NY 10173 (212) 850-8300* (local); (800) 877-9700	
Neuberger & Berman Genesis Fund	ST
Neuberger & Berman Guardian Fund	ST
Neuberger & Berman Ltd Mat Bond	BD
Neuberger & Berman Manhattan	ST
Neuberger & Berman Muni Money	MM
Neuberger & Berman Partners Fund	ST
Neuberger & Berman Sectors + Energy	ST
New England Securities 399 Boylston Street Boston, MA 02116 (617) 267-6600 (local); (800) 343-7104	
CGM Capital Development Fund	ST
CGM Mutual Fund	BA
New England Balanced Fund	ST
New England Bond Income Fund	BD
New England Cash Mgmt–MM	MM
New England Government Securities	BD
New England Growth Fund	ST
New England Retirement Equity	ST
New England Tax-Exempt Income	MU
Newton Fund PO Box 1348 Milwaukee, WI 53201 (414) 347-1141 (local); (800) 242-7229	
Newton Growth Fund	ST
Nicholas Co 700 North Water Street Milwaukee, WI 53202 (414) 272-6133	
Nicholas Fund	ST
Nicholas II	ST
Nicholas Income Fund	BD
Nicholas Limited Edition	ST
Noddings and Associates Two MidAmerica Plaza Suite 920 Oakbrook Terrace, IL 60181 (708) 954-1322* (local); (800) 544-7785	
Noddings Convertible Strategies	BA

Distributor	Type of fund
Nomura Capital Management 180 Maiden Lane 29th Floor New York, NY 10038 (212) 208-9300 (local); (800) 833-0018	
Nomura Pacific Basin Fund	FO
Northeast Investors Trust 50 Congress Street 10th Floor, Room 1000 Boston, MA 02109 (617) 523-3588 (local); (800) 225-6704	
Northeast Investors Growth	ST
Northeast Investors Trust	BD
John Nuveen & Co 333 West Wacker Drive Chicago, IL 60606 (312) 917-7844* (local); (800) 621-7227	
Nuveen California T-F–Ins Bond	MU
Nuveen California T-F–MM	MM
Nuveen California T-F–Spec Bond	MU
Nuveen Insured Tax-Free Bond–Natl	MU
Nuveen Insured Tax-Free Bond–NY	MU
Nuveen Municipal Bond Fund	MU
Nuveen Tax-Exempt Money Market	MM
Nuveen Tax-Free Bond–New York	MU
Nuveen Tax-Free Bond–Ohio	MU
Nuveen Tax-Free MM–Mass	MM
Nuveen Tax-Free MM–New York	MM
Nuveen Tax-Free Reserves	MM
NYLife Securities 51 Madison Avenue Room 2404 New York, NY 10010 (800) 522-4202	
MainStay–Capital Appreciation	ST
MainStay–Convertible Fund	BA
MainStay–Global Fund	FO
MainStay–Gold & Precious Metal	ST
MainStay–Government Plus	BD
MainStay–High Yield Corp Bond	BD
MainStay–Tax-Free Bond	MU
MainStay–Total Return Fund	BA
MainStay–Value Fund	ST

Distributor	Type of fund
Oberweis Emerging Growth 841 North Lake Street Aurora, IL 60506 (800) 942-0850 (local); (800) 323-6166	
Oberweis Emerging Growth	ST
Olympic Trust 800 West Sixth Street Suite 540 Los Angeles, CA 90017 (213) 623-7833 (local); (800) 346-7301	
Olympic Trust–Balanced Income	BA
Olympic Trust–Equity Income	ST
Olympic Trust–Small Cap Fund	ST
Oppenheimer Fund Management PO Box 300 Denver, CO 80201 (303) 671-3200 (local); (800) 525-7048	
Advance America–Equity Income	ST
Champion High Yield Fund	ST
Main Street–Income & Growth	ST
Oppenheimer Asset Allocation Fund	BA
Oppenheimer Blue Chip Fund	ST
Oppenheimer California Tax-Exempt	MU
Oppenheimer Directors Fund	ST
Oppenheimer Discovery Fund	ST
Oppenheimer Equity Income Fund	ST
Oppenheimer Fund	ST
Oppenheimer Global Bio-Tech Fund	FO
Oppenheimer Global Fund	FO
Oppenheimer Gold & Special Mins	ST
Oppenheimer High Yield Fund	BD
Oppenheimer Money Market Fund	MM
Oppenheimer New York Tax-Exempt	MU
Oppenheimer Ninety Ten Fund	BA
Oppenheimer Premium Income	ST
Oppenheimer Regency Fund	ST
Oppenheimer Special Fund	ST
Oppenheimer Target Fund	ST
Oppenheimer Tax-Free Bond Fund	MU
Oppenheimer Time Fund	ST
Oppenheimer Total Return Fund	ST
Oppenheimer US Government Trust	BD
Overland Express PO Box 63084 Suite 721 San Francisco, CA 94163 (800) 552-9612	
Overland Express Asset Allocation	BA
Overland Express Calif Tax Free	MU
Overland Express Tax Free MM	MM
Pacific Financial Research 9601 Wilshire Boulevard Suite 828 Beverly Hills, CA 90210 (213) 278-5033*	
Clipper Fund	ST

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Fund Distributors

Distributor	Type of fund
PaineWebber 1000 Harbor Boulevard Prospectus Department, 1st Floor Weehawken, NJ 07087 (201) 902-7341	
PaineWebber Asset Allocation	BA
PaineWebber Calif Tax-Exempt Inc	MU
PaineWebber Cashfund	MM
PaineWebber Classic Growth & Inc	ST
PaineWebber Classic Atlas Fund	FO
PaineWebber Classic Growth Fund	ST
PaineWebber Classic World	FO
PaineWebber Fixed Inc–GNMA	BD
PaineWebber Fixed Inc–High Yield	BD
PaineWebber Fixed Inc–Invest Grade	BD
PaineWebber Master Energy-Utility	ST
PaineWebber Master Global Income	FO
PaineWebber Master Growth	ST
PaineWebber Master Income	BD
PaineWebber RMA–CA Muni Money	MM
PaineWebber RMA–Money Market	MM
PaineWebber RMA–NY Muni Money	MM
PaineWebber RMA–Retirement	MM
PaineWebber RMA–Tax-Free	MM
PaineWebber Tax-Exempt Income	MU
Pallas Financial Corporation 2325 Crestmoor Road Suite P200 Nashville, TN 37215 (615) 298-1000 (local); (800) 251-1970	
Monitrend Value Fund	ST
Paribas Asset Management 787 Seventh Avenue 30th Floor New York, NY 10019 (212) 841-3245*	
Paribas Trust–Quantus Equity	ST
Parnassus Financial Management 244 California Street San Francisco, CA 94111 (415) 362-3505* (local); (800) 999-3505	
Parnassus Fund	ST
Pasadena Group of Mutual Funds 600 North Rosemead Boulevard Pasadena, CA 91107-2101 (818) 351-9686* (local); (800) 882-2855	
Pasadena Growth Fund	ST
Pax World Fund 224 State Street Portsmouth, NH 03801 (603) 431-8022 (local); (800) 767-1729	
Pax World Fund	BA

Distributor	Type of fund
Penn Square Management 2650 Westview Drive Wyomissing, PA 19610 (800) 222-7506 (local); (800) 523-8440	
Penn Square Mutual Fund	ST
Pennsylvania Mutual Fund 1414 Avenue of the Americas New York, NY 10019 (212) 355-7311 (local); (800) 221-4268	
Pennsylvania Mutual Fund	ST
Permanent Portfolio PO Box 5847 Austin, TX 78763 (512) 453-7558 (local); (800) 531-5142	
Permanent Portfolios–Permanent	BA
Permanent Portfolios–Treasury Bill	BD
Perritt Investments 680 North Lake Shore Drive Tower Suite 2038 Chicago, IL 60611 (312) 649-6940 (local); (800) 338-1579	
Perritt Capital Growth	ST
GR Phelps & Co 140 Garden Street MS 305 Hartford, CT 06154 (203) 293-5090* (local); (800) 322-2642	
Connecticut Mutual–Growth	ST
Connecticut Mutual–Total Return	BA
Phoenix Equity Planning Corp 100 Bright Meadow Boulevard Enfield, CT 06082-1989 (203) 278-8050* (local); (800) 243-4361	
Phoenix Balanced Fund	BA
Phoenix Convertible Fund	BA
Phoenix Growth Fund	ST
Phoenix High Yield Fund	BD
Phoenix Stock Fund	ST
Phoenix Total Return	ST
Pilgrim Group 10100 Santa Monica Boulevard 21st Floor Los Angeles, CA 90067-4112 (213) 551-5440 (local); (800) 336-3436	
Pilgrim GNMA Fund	BD
Pilgrim High Yield Trust	BD
Pilgrim MagnaCap Fund	ST
Pioneer Group 60 State Street Boston, MA 02109-1975 (617) 742-7825* (local); (800) 225-6292	
Pioneer Bond Fund	BD
Pioneer Fund	ST
Pioneer II	ST
Pioneer Three	ST

Distributor	Type of fun
Piper Capital Management Piper Jaffray Tower 222 South 9th Street Minneapolis, MN 55402 (612) 342-6384 (local); (800) 333-6000	
Piper Jaffray Balanced Fund	BA
Piper Jaffray Minnesota Tax-Exempt	MU
Piper Jaffray Money Market	MM
Piper Jaffray Sector Performance	ST
Piper Jaffray Tax-Exempt MM	MM
Piper Jaffray Value Fund	ST
Prescott, Ball & Turben 1331 Euclid Avenue Cleveland, OH 44115 (216) 696-3360 (local); (800) 553-5533	
Selected American Shares	ST
Selected Special Shares	ST
T Rowe Price Associates 100 East Pratt Street Baltimore, MD 21202 (301) 547-2308* (local); (800) 638-5660	
T Rowe Price Calif T-F Inc–Bond	MU
T Rowe Price Calif T-F Inc–Money	MM
T Rowe Price Capital Appreciation	ST
T Rowe Price Equity Income Fund	ST
T Rowe Price GNMA Fund	BD
T Rowe Price Growth & Income	ST
T Rowe Price Growth Stock Fund	ST
T Rowe Price High Yield Fund	BD
T Rowe Price International Bond	FO
T Rowe Price Intl Discovery	FO
T Rowe Price International Stock	FO
T Rowe Price Maryland T-F Bond	MU
T Rowe Price New America Growth	ST
T Rowe Price New Era Fund	ST
T Rowe Price New Horizons Fund	ST
T Rowe Price New Income Fund	BD
T Rowe Price New York T-F Bond	MU
T Rowe Price New York T-F Money	MM
T Rowe Price Prime Reserve Fund	MM
T Rowe Price Science & Technology	ST
T Rowe Price Short-Term Bond Fund	BD
T Rowe Price Small-Cap Value Fund	ST
T Rowe Price Tax-Exempt Money	MM
T Rowe Price Tax-Free High Yield	MU
T Rowe Price Tax-Free Income Fund	MU
T Rowe Price T-F Short-Intermediate	MU
Primary Trend Fund First Financial Centre-4th Floor 700 North Water Street Milwaukee, WI 53202 (800) 443-6544	
Primary Trend Fund	ST
Princor Financial Services Corp 711 High Street Des Moines, IA 50309 (515) 247-5711 (local); (800) 247-4123	
Princor Aggressive Growth Fund	ST
Princor Capital Accumulation Fund	ST
Princor Growth Fund	ST
Princor Managed Fund	BA
Princor World Fund	FO

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Fund Distributors

Distributor	Type of fund
ProvidentMutual Financial Svcs PO Box 15627 Christiana Executive Campus Wilmington, DE 19850 (302) 456-1010* (local); (800) 441-9490	
ProvidentMutual Convertible Secs	BA
ProvidentMutual Growth Fund	ST
ProvidentMutual Investment Shares	ST
ProvidentMutual Pennsylvania T-F	MU
ProvidentMutual Total Return Trust	BA
ProvidentMutual US Govt Fund for Inc	BD
ProvidentMutual Value Shares	ST
ProvidentMutual World Fund	FO
Prudent Speculator Group 4023 West Sixth Street Los Angeles, CA 90020 (213) 252-9000* (local); (800) 444-4778	
Prudent Speculator Leveraged Fund	ST
Prudential-Bache One Seaport Plaza Mutual Funds-18th Floor New York, NY 10292 (800) 225-1852	
Command Money Fund	MM
Command Tax-Free Fund	MM
Pru-Bache Bond–Insured	MU
Pru-Bache California Municipal	MU
Pru-Bache Equity Fund	ST
Pru-Bache Equity Income	ST
Pru-Bache FlexiFund–Aggressive	ST
Pru-Bache FlexiFund–Conservative	ST
Pru-Bache Global Fund	FO
Pru-Bache Global Genesis	FO
Pru-Bache Global Natural Res	FO
Pru-Bache GNMA Fund	BD
Pru-Bache Government Plus	BD
Pru-Bache Govt Secs–Intermediate	BD
Pru-Bache Govt Secs–Money Market	MM
Pru-Bache Growth Opportunity	ST
Pru-Bache High Yield Fund	BD
Pru-Bache IncomeVertible Plus	BA
Pru-Bache Moneymart Assets	MM
Pru-Bache Muni–Arizona	MU
Pru-Bache Muni–High Yield	MU
Pru-Bache Muni–Maryland	MU
Pru-Bache Muni–Massachusetts	MU
Pru-Bache Muni–Michigan	MU
Pru-Bache Muni–New Jersey	MU
Pru-Bache Muni–New York	MU
Pru-Bache Muni–New York MM	MM
Pru-Bache Muni–North Carolina	MU
Pru-Bache Muni–Ohio	MU
Pru-Bache Muni–Pennsylvania	MU
Pru-Bache National Municipals	MU
Pru-Bache Option Growth Fund	ST
Pru-Bache Research Fund	ST
Pru-Bache Tax-Free Money Fund	MM
Pru-Bache US Government	BD
Pru-Bache Utility Fund	ST

Distributor	Type of fund
Putnam Financial Services PO Box 2701 Boston, MA 02208 (617) 292-1000 (local); (800) 225-1581	
Putnam California Tax-Exempt Inc	MU
Putnam California Tax-Exempt MM	MM
Putnam Convertible Income-Growth	BA
Putnam Daily Dividend Trust	MM
Putnam Diversified Income Trust	BD
Putnam Energy-Resources Trust	ST
Putnam Fund for Growth & Income	ST
George Putnam Fund of Boston	BA
Putnam Global Governmental Trust	FO
Putnam GNMA Plus Trust	BD
Putnam Health Sciences Trust	ST
Putnam High Income Government	BD
Putnam High Yield Trust	BD
Putnam High Yield Trust II	BD
Putnam Income Fund	BD
Putnam Information Sciences Trust	ST
Putnam International Equities Fund	FO
Putnam Investors Fund	ST
Putnam Massachusetts Tax-Ex Inc	MU
Putnam Michigan Tax-Exempt Inc	MU
Putnam Minnesota Tax-Exempt Inc	MU
Putnam New York Tax-Exempt Inc	MU
Putnam New York Tax-Exempt MM	MM
Putnam Ohio Tax-Exempt Income	MU
Putnam Option Income Trust	ST
Putnam Option Income Trust II	ST
Putnam OTC Emerging Growth Fund	ST
Putnam Tax-Exempt Income Fund	MU
Putnam Tax-Exempt Money Market	MM
Putnam Tax-Free Income–High Yield	MU
Putnam Tax-Free Income–Insured	MU
Putnam US Govt Guaranteed Secs	BD
Putnam Vista Basic Value	ST
Putnam Voyager Fund	ST
Quest Distributors 1414 Avenue of the Americas New York, NY 10019 (212) 355-7311* (local); (800) 221-4268	
Royce Fund–Total Return	BA
Royce Fund–Value	ST
Quest for Value 200 Liberty Street World Financial Center, 37th Floor New York, NY 10281 (212) 667-7587 (local); (800) 232-3863	
Quest for Value–Asset Allocation	BA
Quest for Value Fund	ST
James B Rea 10966 Chalon Road Los Angeles, CA 90077 (213) 208-2282* (local); (800) 433-1998	
Rea-Graham Balanced Fund	BA
Reich & Tang LP 100 Park Avenue 28th Floor New York, NY 10017 (212) 370-1240* (local); (800) 221-3079	
California Daily Tax-Free Income	MM
Connecticut Daily Tax-Free Income	MM
Daily Tax-Free Income Fund	MM
Empire Tax-Free Money Market	MM
Michigan Daily Tax-Free Income	MM
Reich & Tang Equity Fund	ST
Short-Term Income–Money Market	MM

Distributor	Type of fund
Resrv Partners 810 Seventh Avenue 35th Floor New York, NY 10019 (800) 637-1700 (local); (800) 223-5547	
Reserve Fund–Government	MM
Reserve Fund–Primary	MM
Reserve New York Tax-Exempt–NY	MM
Reserve Tax-Exempt–Connecticut	MM
Reserve Tax-Exempt–Interstate	MM
Review Management Corp PO Box 1537 Suite 228 Fort Washington, PA 19034-1537 (215) 643-2510* (local); (800) 523-2578	
European Emerging Companies Fund	FO
Over-the-Counter Securities Fund	ST
Robertson, Stephens & Co One Embarcadero Center Suite 3100 San Francisco, CA 94111 (415) 781-9700 (local); (800) 288-7726	
RCS Emerging Growth	ST
Rochester Fund Distributors 379 Park Avenue Rochester, NY 14607 (716) 442-5500*	
Rochester Convertible Fund	BA
Rochester Fund Municipals	MU
Rochester Tax Managed Fund	ST
Rodney Square Funds c/o Provident Financial Processing PO Box 8950 Wilmington, DE 19899 (302) 479-1086* (local); (800) 992-5084	
Rodney Square International Equity	FO
Rodney Square Fund–MM	MM
Rodney Square Multi–Growth	ST
Rodney Square Multi–Total Return	BA
Rodney Square Multi–Value	ST
Rodney Square Tax-Exempt	MM
Ruane, Cunniff & Co 1370 Avenue of the Americas New York, NY 10019 (212) 245-4500	
Sequoia Fund	ST
Rushmore Group 4922 Fairmont Avenue Bethesda, MD 20814 (301) 657-1500* (local); (800) 343-3355	
American Gas Index Fund	ST
Fund for Govt Investors	MM
Rushmore–OTC Index Plus	ST
Rushmore–Stock Market Index Plus	ST
Safeco Securities Safeco Plaza T-15 Seattle, WA 98185 (206) 545-5530 (local); (800) 426-6730	
Safeco California Tax-Free Income	MU
Safeco Equity Fund	ST
Safeco Growth Fund	ST
Safeco Income Fund	ST
Safeco Municipal Bond Fund	MU

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Distributor	Type of fund
alomon Brothers Asset Management 5 Water Street 4th Floor New York, NY 10041 212) 668-8578* (local); (800) 221-5350	
alomon Brothers Capital Fund	ST
alomon Brothers Investors Fund	ST
alomon Brothers Opportunity Fund	ST
BSF Funds 5 Rockefeller Plaza 3rd Floor New York, NY 10111 212) 903-1200 (local); (800) 422-7273	
BSF–Growth Fund	ST
chafer Value Trust 10 Carnegie Center rinceton, NJ 08540 609) 936-1200	
chafer Value Fund	ST
chield Portfolios Securities 90 Union Boulevard uite 410 enver, CO 80228 00) 247-9331 (local); (800) 826-8154	
chield–Timed Asset Allocation	BA
udder Fund Distributors 60 Federal Street oston, MA 02110 00) 225-2470	
ARP Growth–Capital Growth	ST
ARP Growth–Growth & Income	ST
ARP Income–GNMA & US Treas	BD
ARP Income–High Quality Bond	BD
ARP Insured T-F Inc–Genl Bond	MU
pan Fund	FO
udder California Tax Free Fund	MU
udder California Tax-Free Money	MM
udder Capital Growth	ST
udder Cash Investment Trust	MM
udder Development Fund	ST
udder Equity Income	ST
udder Fund–Lazard Equity	ST
udder Fund–Managed Tax-Free	MM
udder Global Fund	FO
udder GNMA Fund	BD
udder Gold Fund	ST
udder Growth & Income Fund	ST
udder High Yield Tax Free Fund	MU
udder Income Fund	BD
udder International Bond	FO
udder International Fund	FO
udder Managed Municipal Bonds	MU
udder Massachusetts Tax Free	MU
udder NY Tax Free Fund	MU
udder NY Tax-Free Money Fund	MM
udder Ohio Tax Free Fund	MU
udder Short Term Bond Fund	BD
udder Tax-Free Money Fund	MM

Distributor	Type of fund
Securities Management & Research Two Moody Plaza Galveston, TX 77550 (800) 231-4639	
American National Growth Fund	ST
American National Income Fund	ST
Triflex Fund	BA
Security Distributors 700 Harrison Street Topeka, KS 66636 (800) 888-2461	
Security Action Fund	ST
Security Equity Fund	ST
Security Income–Corporate Bond	BD
Security Investment Fund	ST
Security Omni Fund	ST
Security Ultra Fund	ST
Seligman Marketing 130 Liberty Street New York, NY 10006 (800) 522-6869 (local); (800) 221-2450	
Seligman Calif Tax-Exempt–High Yld	MU
Seligman Calif Tax-Exempt–Quality	MU
Seligman Capital Fund	ST
Seligman Common Stock Fund	ST
Seligman Commun & Information	ST
Seligman Growth Fund	ST
Seligman Income Fund	BA
Seligman New Jersey Tax-Exempt	MU
Seligman Penn Tax-Exempt–Quality	MU
Seligman Tax-Exempt–Colorado	MU
Seligman Tax-Exempt–Louisiana	MU
Seligman Tax-Exempt–Maryland	MU
Seligman Tax-Exempt–Mass	MU
Seligman Tax-Exempt–Michigan	MU
Seligman Tax-Exempt–Minnesota	MU
Seligman Tax-Exempt–Missouri	MU
Seligman Tax-Exempt–National	MU
Seligman Tax-Exempt–New York	MU
Seligman Tax-Exempt–Ohio	MU
Seligman Tax-Exempt–Oregon	MU
Seligman Tax-Exempt–SC	MU
Sentry Equity Services 1800 North Point Drive A3/32 Stevens Point, WI 54481 (800) 533-7827	
Sentry Fund	ST

Distributor	Type of fund
Shearson Lehman Hutton One Western Union Plaza 15th Floor New York, NY 10004 (212) 528-2744	
SLH Aggressive Growth	ST
SLH Appreciation Fund	ST
SLH California Daily Tax-Free	MM
SLH California Municipals	MU
SLH Daily Dividend	MM
SLH Daily Tax-Free Dividend	MM
SLH Equity–Growth & Opportunity	ST
SLH Equity–International	FO
SLH Equity–Sector Analysis	ST
SLH Equity–Strategic Investors	ST
SLH Fundamental Value Fund	ST
SLH Global Opportunities	FO
SLH Government & Agencies	MM
SLH High Yield Fund	BD
SLH Income–Convertible Secs	BA
SLH Income–Global Bond	FO
SLH Income–High Income	BD
SLH Income–Mortgage Secs	BD
SLH Income–Option Income	ST
SLH Income–Tax-Exempt Income	MU
SLH Income–Utilities	BA
SLH Investment–Directions Value	ST
SLH Investment–European	FO
SLH Investment–Global Equity	FO
SLH Investment–Government Secs	BD
SLH Investment–High Grade	BD
SLH Investment–Growth	ST
SLH Investment–Precious Metals	ST
SLH Investment–Special Equities	ST
SLH Managed Govt	BD
SLH Managed Municipals	MU
SLH Multi Opportunity LP	ST
SLH New Jersey Municipals	MU
SLH New York Daily Tax-Free	MM
SLH New York Municipals	MU
SLH Precious Metals & Mins	FO
SLH Principal Ret–Zero & Apprec	ST
SLH Small Capitalization	ST
SLH Telecommunications–Growth	ST
Sheffield Investments 41 Madison Avenue New York, NY 10010 (212) 779-7979* (local); (800) 922-7771	
Blanchard Precious Metals Fund	ST
Blanchard Strategic Growth	ST
Sherman, Dean Fund 6061 NW Expressway Suite 465 San Antonio, TX 78201 (512) 735-7700 (local); (800) 247-6375	
Sherman, Dean Fund	ST

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Fund Distributors

Distributor	Type of fund
Siebel Capital Management 80 East Sir Francis Drake Blvd Larkspur, CA 94939 (415) 461-3850	
Adam Investors	ST
Signature Financial Group 6 Saint James Avenue 9th Floor Boston, MA 02116 (617) 423-0800	
FundTrust–Aggressive Growth	ST
FundTrust–Growth	ST
FundTrust–Growth & Income	BA
FundTrust–Managed Total Return	ST
Sit Investment Associates 90 South 7th Street Suite 4600 Minneapolis, MN 55402 (612) 332-3223 (local); (800) 332-5580	
Sit New Beginning Growth Fund	ST
Sit New Beginning Income & Growth	ST
Smith Barney, Harris Upham & Co 1345 Sixth Avenue New York, NY 10105 (212) 698-5349 (local); (800) 544-7835	
Muni Bond Funds–California	MU
Muni Bond Funds–National	MU
Muni Bond Funds–New York	MU
National Liquid Reserves–Cash	MM
National Liquid Reserves–Retire	MM
Smith Barney Equity Fund	ST
Smith Barney–Income & Growth	ST
Smith Barney–US Government	BD
Tax-Free Money Fund	MM
Vantage Money Market–Cash	MM
Sogen Securities Corp 50 Rockefeller Plaza New York, NY 10020 (212) 957-3800 (local); (800) 334-2143	
SoGen International Fund	ST
Sound Shore Fund PO Box 1810 Greenwich, CT 06836 (203) 629-1980	
Sound Shore Fund	ST
Southeastern Asset Management 860 Ridgelake Boulevard Suite 301 Memphis, TN 38119 (901) 761-2474* (local); (800) 445-9469	
SAM Small Cap Fund	ST
SAM Value Trust	ST
Sovereign Advisers 985 Old Eagle School Road Suite 515A Wayne, PA 19087 (215) 254-0703*	
Sovereign Investors	ST

Distributor	Type of fund
State Bond Sales Corp 8500 Normandale Lake Boulevard Minneapolis, MN 55437 (507) 354-2144* (local); (800) 328-4735	
State Bond Common Stock Fund	ST
State Bond Diversified Fund	ST
State Bond Progress Fund	ST
Steadman Security Corp 1730 K Street NW Suite 904 Washington, DC 20006 (202) 223-1000 (local); (800) 424-8570	
Steadman American Industry Fund	ST
Steadman Associated Fund	ST
Steadman Investment Fund	ST
Steadman Oceanographic Tech & Gr	ST
Stein Roe & Farnham PO Box 1131 Chicago, IL 60690 (800) 338-2550	
SteinRoe Capital Opportunities	ST
SteinRoe High Yield Municipals	MU
SteinRoe Cash Reserves	MM
SteinRoe Intermediate Bond Fund	BD
SteinRoe International Growth	FO
SteinRoe Managed Municipals	MU
SteinRoe Special Fund	ST
SteinRoe Stock Fund	ST
SteinRoe Tax-Exempt Money Fund	MM
SteinRoe Total Return Fund	BA
Stonebridge Capital 1801 Century Park East Suite 1800 Los Angeles, CA 90067 (213) 277-1450	
National Industries Fund	ST
Strategic Distributors 2030 Royal Lane Dallas, TX 75229 (214) 484-1326* (local); (800) 527-5027	
Strategic Gold/Minerals Fund	ST
Strategic Investments Fund	FO
Strategic Silver Fund	ST
Stratton Management 610 West Germantown Pike Suite 361 Plymouth Meeting, PA 19462 (215) 941-0255* (local); (800) 634-5726	
Stratton Growth Fund	ST
Stratton Monthly Dividend Shares	ST
Strong/Corneliuson Capital Management PO Box 2936 Milwaukee, WI 53201-2936 (414) 359-1400* (local); (800) 368-3863	
Strong Advantage Fund	BD
Strong Discovery Fund	ST
Strong Income Fund	BD
Strong Investment Fund	BA
Strong Money Market Fund	MM
Strong Tax-Free Money Market Fund	MM
Strong Opportunity Fund	ST
Strong Total Return Fund	BA

Distributor	Type of fun
SunAmerica Asset Management 10 Union Square East New York, NY 11003 (800) 858-8850 (local); (800) 821-5100	
Home Investors Govt Guaranteed Inc	BI
SunAmerica Capital Appreciation	ST
SunAmerica Equity–Aggressive Grow	ST
SunAmerica Equity–Growth	ST
SunAmerica Income–Convert Secs	BA
SunAmerica Multi-Asset–Tot Return	ST
TBC Funds Distributor 103 Bellevue Parkway Wilmington, DE 19809 (302) 792-6400 (local); (800) 441-7379	
HT Insight–Convertible Fund	ST
HT Insight–Equity Fund	ST
HT Insight–Tax-Free MM Fund	MI
Pierpont Capital Appreciation Fund	ST
Pierpont Equity Fund	ST
Pierpont Money Market	MI
Pierpont Tax-Exempt Bond Fund	MU
Pierpont Tax-Exempt Money Market	MI
Templeton Funds Distributors 700 North Central Avenue St Petersburg, FL 33701-3628 (813) 823-8712 (local); (800) 237-0738	
Templeton Foreign Fund	FO
Templeton Global	FO
Templeton Growth Fund	FO
Templeton Income Fund	BA
Templeton World Fund	ST
Thompson, Unger & Plumb PO Box 55320 Madison, WI 53705 (608) 231-1676*	
Thompson, Unger & Plumb Fund	BA
Thomson McKinnon Asset Management One State Street Plaza New York, NY 10004 (212) 482-5894 (local); (800) 628-1237	
Cash Accumulation–National MM	MM
Cash Accumulation–National Tax-Ex	MM
Thomson McKinnon–Global	FO
Thomson McKinnon–Growth	ST
Thomson McKinnon–Income	BD
Thomson McKinnon–Opportunity	ST
Thomson McKinnon–Prec Metals	ST
Thomson McKinnon–US Govt	BD
Thornburg Securities 119 East Marcy Street Suite 202 Santa Fe, NM 87501 (505) 984-0200 (local); (800) 847-0200	
Limited Term Municipal–California	MU
Limited Term Municipal–National	MU

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Distributor	Type of fund
Transamerica 1000 Louisiana Suite 6000 Houston, TX 77002-5098 800) 999-3863	
Transamerica Govt Securities	BD
Transamerica Growth & Income	BA
Transamerica Inv Quality Bond	BD
Transamerica Lowry Market Timing	ST
Transamerica Special Blue Chip Fund	ST
Transamerica Special Convert Secs	BA
Transamerica Special Emerging Grow	ST
Transamerica Special Global Growth	FO
Transamerica Special Natural Res	ST
Transamerica Sunbelt Growth Fund	ST
Transamerica Technology Fund	ST
Trusteed Funds One Winthrop Square oston, MA 02110 300) 462-1199 (local); (800) 343-2902	
Commonwealth Investment–Balanced	BA
Commonwealth Investment–Growth	ST
wentieth Century Investors O Box 419200 ansas City, MO 64141-6200 16) 531-5575 (local); (800) 345-2021	
0th Century Balanced Fund	BA
0th Century Cash Reserve	MM
0th Century Giftrust Investors	ST
0th Century Growth Investors	ST
0th Century Heritage Investors	ST
0th Century Select Investors	ST
0th Century Ultra Investors	ST
0th Century US Governments	BD
0th Century Vista Investors	ST
yndall Distributors 500 Forest Avenue ite 223 chmond, VA 23229 00) 527-9500	
yndall World–Tiger Fund	FO
yndall World–TV EuroPacific Fund	FO
nified Management, Corp O Box 6110 dianapolis, IN 46206-6110 17) 634-3300 (local); (800) 862-7283	
nified Growth Fund	ST
nified Income Fund	BA
nified Mutual Shares	ST
nited Services Advisors O Box 29467 n Antonio, TX 78229-0467 12) 696-1234* (local); (800) 873-8637	
nited Services–Global Resources	FO
nited Services–Gold Shares Fund	FO
nited Services–Good & Bad	ST
nited Services–Growth Fund	ST
nited Services–Income Fund	ST
nited Services–New Prospector	FO

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THE Vanguard GROUP OF INVESTMENT COMPANIES sm

Fund Distributors

Distributor	Type of fund
US Boston Investment 6 New England Executive Park Burlington, MA 01803 (617) 272-6420	
US Boston Inv–Foreign G&I	FO
US Boston Inv–Growth & Income	ST
USAA Investment Management USAA Building San Antonio, TX 78284-9855 (512) 498-8181 (local); (800) 531-8181	
USAA Investment–Balanced	BA
USAA Investment–Cornerstone Fund	ST
USAA Investment–Gold Fund	ST
USAA Investment–International	FO
USAA Mutual–Aggressive Growth	ST
USAA Mutual–Growth Fund	ST
USAA Mutual–Income Fund	BD
USAA Mutual–Income Stock Fund	ST
USAA Mutual–Money Market	MM
USAA Tax-Exempt–High Yield	MU
USAA Tax-Exempt–Intermediate	MU
USAA Tax-Exempt–Money Market	MM
USAA Tax-Exempt–Short-Term	MU
UST Securities 555 South Flower Street Suite 2710 Los Angeles, CA 90071 (213) 488-0666 (local); (800) 233-1136	
UST Master Funds–Equity	ST
UST Master Funds–Govt Money	MM
UST Master Funds–Income & Growth	ST
UST Master Funds–International	FO
UST Master Tax-Exempt–Short-Term	MM
Valley Forge Fund 1375 Anthony Wayne Drive Wayne, PA 19087 (215) 688-6839 (local); (800) 548-1942	
Valley Forge Fund	ST
Value Line Securities 711 Third Avenue New York, NY 10017 (800) 223-0818	
Value Line Cash Fund	MM
Value Line Convertible Fund	ST
Value Line Fund	ST
Value Line Income Fund	ST
Value Line Leveraged Growth Inv	ST
Value Line New York Tax-Exempt	MU
Value Line Special Situations Fund	ST
Value Line Tax-Exempt–High Yield	MU
Value Line US Government Secs	BD
Van Eck Securities Corp 122 East 42nd Street 42nd Floor New York, NY 10168 (212) 687-5200* (local); (800) 221-2220	
Van Eck Gold/Resources Fund	ST
Van Eck International Investors	FO
Van Eck World Income Fund	FO
Van Eck World Trends Fund	FO

Distributor	Type of fund
Van Kampen Merritt 1001 Warrenville Road Lisle, IL 60532 (708) 719-6000 (local); (800) 225-2222	
Van Kampen Merritt Calif Ins T-F	MU
Van Kampen Merritt Growth & Inc	ST
Van Kampen Merritt High Yield	BD
Van Kampen Merritt Insured T-F	MU
Van Kampen Merritt Penn T-F Inc	MU
Van Kampen Merritt T-F High Inc	MU
Van Kampen Merritt US Government	BD
Vanguard Group of Investment Cos PO Box 2600 MS 136 Valley Forge, PA 19482 (215) 648-6000 (local); (800) 662-7447	
Vanguard Asset Allocation	ST
Vanguard Bond Market Fund	BD
Vanguard California T-F–Ins L-T	MU
Vanguard California T-F–MM	MM
Vanguard Convertible Securities	BA
Vanguard Equity Income Fund	BA
Vanguard Explorer Fund	ST
Vanguard Fixed Income–GNMA	BD
Vanguard Fixed Income–High Yield	BD
Vanguard Fixed Income–Invest Grade	BD
Vanguard Fixed Income–Short-Term	BD
Vanguard Fixed Income–S-T Govt Bond	BD
Vanguard Fixed Income–US Treasury	BD
Vanguard High Yield Stock	ST
Vanguard Index–500 Portfolio	ST
Vanguard Index–Extended Market	ST
Vanguard MM Reserves–Federal	MM
Vanguard MM Reserves–Prime	MM
Vanguard MM Reserves–US Treas	MM
Vanguard/Morgan Growth Fund	ST
Vanguard Muni Bond–High Yield	MU
Vanguard Muni Bond–Insured L-T	MU
Vanguard Muni Bond–Intermediate	MU
Vanguard Muni Bond–Limited Term	MU
Vanguard Muni Bond–Long-Term	MU
Vanguard Muni Bond–Money Market	MM
Vanguard Muni Bond–Short-Term	MU
Vanguard NJ Tax-Free–Insured L-T	MU
Vanguard NJ Tax-Free–MM	MM
Vanguard New York Insured T-F	MU
Vanguard Penn Tax-Free–Insured L-T	MU
Vanguard Penn Tax-Free–MM	MM
Vanguard Preferred Stock Fund	BD
Vanguard Primecap Fund	ST
Vanguard Quantitative Portfolios	ST
Vanguard Small Cap Stock	ST
Vanguard Special–Energy	ST
Vanguard Special–Gold & Precious	FO
Vanguard Special–Health Care	ST
Vanguard Special–Service Economy	ST
Vanguard Special–Technology	ST
Vanguard STAR Fund	BA
Vanguard Trustees Commingled–Intl	FO
Vanguard Trustees Commingled–US	ST
Vanguard Wellesley Income Fund	BA
Vanguard Wellington Fund	BA
Vanguard Windsor Fund	ST
Vanguard Windsor II	ST
Vanguard World–Intl Growth	FO
Vanguard World–US Growth	ST

Distributor	Type of fund
Variable Stock Fund One Winthrop Square Boston, MA 02110 (413) 781-3000 (local); (800) 343-2902	
Variable Stock Fund	ST
Venture Advisers PO Box 1688 Santa Fe, NM 87504-1688 (505) 983-4335 (local); (800) 279-2279	
New York Venture Fund	ST
RPF of America–Bond Fund	BD
RPF of America–Equity Fund	ST
Venture Income (+) Plus	BD
Voyageur Fund Distributor 100 South Fifth Street Suite 2200 Minneapolis, MN 55402 (800) 247-1576 (local); (800) 553-2143	
Voyageur Colorado Tax-Free Fund	MU
Voyageur Granit Growth Stock	ST
Voyageur Minnesota Tax-Free Fund	MU
Waddell & Reed 2400 Pershing Road PO Box 418343 Kansas City, MO 64141-9343 (816) 283-4122 (local); (800) 366-5465	
United Accumulative Fund	ST
United Bond Fund	BD
United Cash Management	MM
United Continental Income Fund	BA
United Gold & Government Fund	FO*
United Government Securities	BD
United High Income Fund	BD
United High Income Fund II	BD
United Income Fund	ST
United International Growth	FO
United Municipal Bond Fund	MU
United Municipal High Income	MU
United New Concepts Fund	ST
United Retirement Shares	BA
United Science & Energy Fund	ST
United Vanguard Fund	ST

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Distributor	Type of fund
Wall Street Management Corp 541 Lexington Avenue 21st Floor New York, NY 10022 (212) 319-9400*	
Wall Street Fund	ST
Washington Funds Distributors 1101 Vermont Avenue NW Washington, DC 20005 (202) 842-5300 (local); (800) 972-9274	
Growth Fund of Washington	ST
Weiss, Peck & Greer One New York Plaza New York, NY 10004 (212) 908-9582* (local); (800) 223-3332	
WPG Dividend Income Fund	ST
WPG Fund	ST
WPG Government Securities Fund	BD
WPG International Fund	FO
WPG Tudor Fund	ST
Weitz Securities 1290 West Dodge Road Suite 405 Omaha, NE 68114-3323 (402) 391-1980*	
Weitz Series Fund–Value	ST

Distributor	Type of fund
Westchester Capital Management 11 High Meadows Mount Kisco, NY 10549 (914) 241-3360*	
The Merger Fund	ST
Wheat First Securities PO Box 1357 Richmond, VA 23211 (804) 627-8625 (local); (800) 999-4328	
Southeastern Growth Fund	ST
Winsbury Company 1900 East Dublin-Granville Road Columbus, OH 43229 (800) 451-8377	
ASO Outlook Group–Equity Fund	ST
Parkstone Bond Fund	BD
Parkstone Equity Fund	ST
Parkstone High Income Equity	ST
Parkstone Intermediate Govt Oblig	BD
Parkstone Municipal Bond	MU
Parkstone Prime Obligations	MM
Parkstone Small Cap Value	ST
Parkstone Tax-Free Fund	MM

Distributor	Type of fund
Wood Logan 1455 East Putnam Avenue Old Greenwich, CT 06870 (800) 334-4437	
NA Security–Aggressive Asset Alloc	BA
NA Security–Conserv Asset Alloc	BA
NA Security–Growth	ST
NA Security–Moderate Asset Alloc	BA
BC Ziegler & Co 215 North Main Street West Bend, WI 53095 (414) 334-5521 (local); (800) 826-4600	
Principal Preservation–Div Achievers	ST
Principal Preservation–S&P 100 Plus	ST
Zweig Securities 5 Hanover Square 17th Floor New York, NY 10004 (800) 272-2700	
Zweig Series–Government Secs	BD
Zweig Series–Priority Selection	ST

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The Forbes Wall Street Review

By Eric S. Hardy

vents in the Persian Gulf were felt in ock markets around the world. The Iorgan Stanley Capital International erspective index of 1,000 European, ustralian, New Zealand and Far astern stocks lost 7% in dollar terms the last two weeks. Yet even before ussein's troops rolled into Kuwait, all Street was entering a slump. Al- ough the Dow hit an alltime peak July 17, the 6,000 stocks in the ilshire failed to confirm this as a arket top (the Wilshire high dates ck to Oct. 9, 1989). On the day eceding the Iraqi invasion the Dow as already 3% below its July high.

Technology stocks were hard hit ring the last two weeks. Cetus, a ological research firm, lost almost lf of its value. Advanced Micro De- ces declined a fifth. During the last n trading days the Nasdaq compos- fell 7.3%, while the Wilshire index 6,000 issues fell 4.8%.

Gold and energy issues were about e only stocks posting gains. Bernard Picchi, an energy analyst at Merrill nch, thinks that there is still time profit from the current instability the oil industry. However, Picchi commends caution. He thinks that cks such as Amerada Hess, Mur- y Oil and Unocal have already had ong price runups and may be over- lued. What does Picchi like? Inte- ted oils selling at lower earnings ltiples, such as Atlantic Richfield d Texaco.

The Best Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Fund American Cos	50	42%	51	6,075	5.0
Freeport McMoRan Oil	10⅛	31	NM	2,281	4.8
Boise Cascade	38	19	9	3,088	2.8
FMC Gold	11½	15	17	450	2.0
AMAX Gold	17⅛	14	48	215	1.3

The Worst Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Cetus	8⅞	–47%	NM	13,402	2.3
UAL	113¾	–30	11	4,835	3.0
Promus Cos	19¼	–27	NM	1,668	1.6
Advanced Micro Devices	5⅝	–22	23	5,534	0.9
Associated Communications	22¾	–22	71	93	0.6

Closeup on the Market

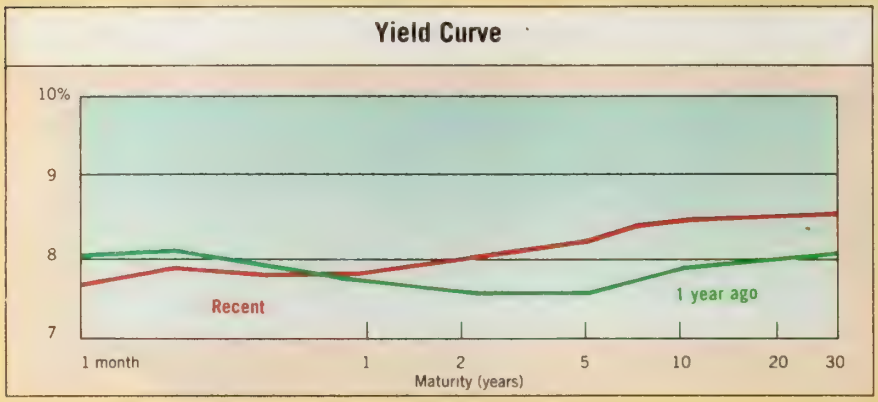
dex or investment	Price	2-week change
ilshire index 00 stocks, capitalization weighted	3,227.97	–4.8%
ilshire index 00 stocks, equal weighted	20.29	–5.3
w Jones industrials stocks, divisor-adjusted price average	2,758.91	–5.5
P 500 italization weighted cross section, major stocks	339.94	–4.5
SE italization weighted, all listed common stocks	186.24	–4.3
ex italization weighted total return: stocks, warrants	341.49	–4.2
sdaq italization weighted, all issues except warrants	412.98	–7.3
ex international market index italization weighted, 50 largest ADRs	303.49	–4.8

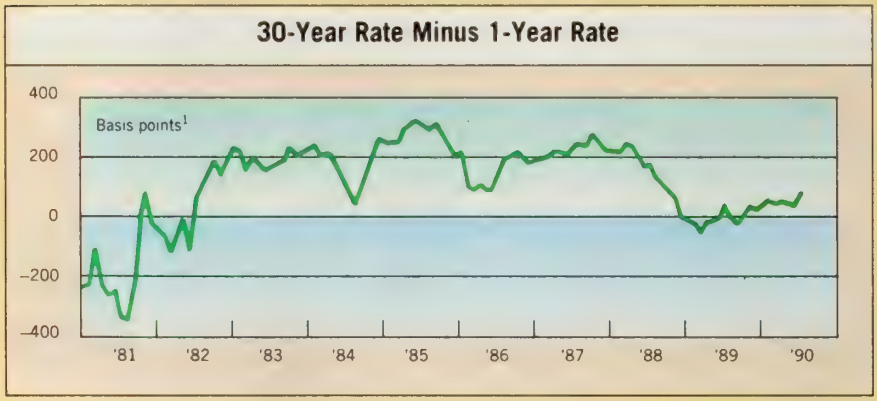
Index or investment	Price or rate	2-week change
Europe, Australia, New Zealand and Far East[4] (EAFE) a dollar denominated capitalization weighted index	849.50	–7.0%
Institutional[5] Approximately 200 stocks with high institutional ownership	103.86	–7.6
Individual[5] Approximately 200 stocks with low institutional ownership	96.15	–6.1
Russell 2000 index 2000 stocks with small market values, capitalization weighted	152.54	–7.0
Gold[6] (composite quote of 6 major dealers)	$383.85	4.0
Yen[6] (per $U.S.)	149.70	–0.5
Commodity index[6] (CRB futures index, 1967=100)	235.66	0.4
Oil[6] (W Texas Intermediate)	$25.65	26.4
T bills[6] (90 days)	7.40%	–16 basis points[7]
Broker loan rate[6]	9.25%	unchanged

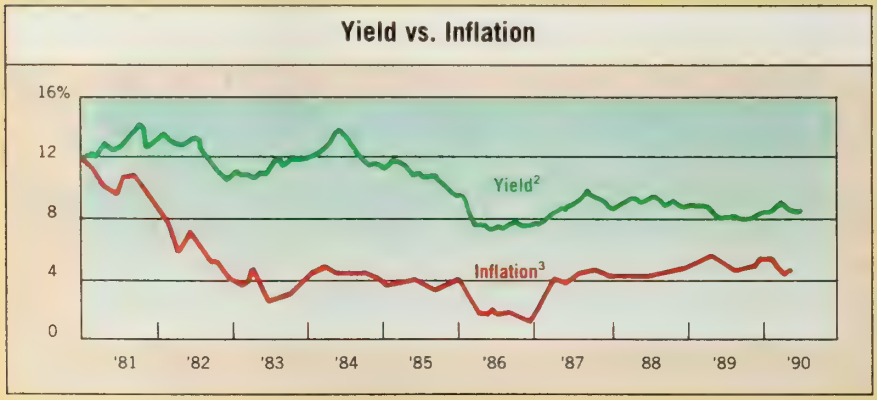
N: All data for periods ending 8/9/90. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity in index was created. Stocks listed above have market capitalizations of $500 million or more. [1]Capitalization weighted, prepared by Wilshire Associates, Santa Monica, Calif. A age daily volume over a 2-week period. [3]Average daily volume over the last 2 weeks, divided by the average daily volume over the preceding 3 months. [4]Morgan Stanley al International Perspective. [5]For period ending 8/10/90. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. [6]Knight-Ridder Financial nation. [7]A basis point is equal to one-hundredth of a percentage point. NM: Not meaningful.

Fixed Income Review

Edited by Eric S. Hardy







Spread over Treasurys		Total returns		
Security	Basis points[1]	Security	1 year[6]	3 years[6,7]
AA corporates	83	AAA corporates	6.1%	10.1%
AAA industrials	82	Ginnie Maes[5]	9.4	11.1
Ginnie Maes	100	Junk corporates[4]	1.0	7.5
Junk corporates[4]	713	Municipals[5]	6.9	8.7
Municipals[5]	125	Treasury bonds	6.0	9.3

Note: Except where footnoted, all information provided by Berkeley, Calif.-based Barra, a financial consulting firm. [1]A basis point is equal to one-hundredth of a percentage point. [2]Yield on ten-year Treasurys. [3]The trailing 12-month increase in the Consumer Price Index, through 6/30/90. [4]Source: First Boston. [5]Source: Shearson Lehman Brothers. [6]Through 7/31/90. [7]Three-year total return, annualized.

Saddam Hussein and his army of thugs can be blamed for a rise in inflation expectations and therefore in interest rates. But this may have created a window of opportunity in the bond market, especially at the longer end of the maturity spectrum. James Kochan, chief bond strategist at Merrill Lynch, is predicting a 0.5% decline in the yield on 30-year Treasury bonds by the end of the year. Even before the invasion of Kuwait, however, the yield curve had been taking on a more normal upward slope *(see top left)*.

The municipal bond market has also been damaged by rising rates. In addition, it is contending with something that Treasurys have not yet been exposed to: doubts about credit quality.

It's a sign of the times that in a recent annual report to shareholders the president of Scudder Massachusetts Tax Free Fund goes out of his way to boast of avoiding general obligation bonds. It used to be that a general obligation bond, pledging the full credit and taxing power of the issuing state or municipality, was the safest kind to have. But Massachusetts' general obligation bonds have been dropped in S&P's rating to BBB, lowest in the nation. And so Scudder is protecting its customers' assets by investing in Massachusetts munis backed by almost anything but the state's credit: revenue streams from hospitals or independent entities such as Harvard University. Issues from Harvard and the Massachusetts Housing Finance Agency have higher ratings than state bonds, even when they are not insured.

Investors who can't decide between the debt or equity markets should consider a hybrid investment—convertible bonds. Such bonds can appreciate from lower interest rates or a rise in the value of the underlying stock or a combination of both events. (Conversely, of course, they can be double-whammied by a combination of rising interest rates and a falling stock market.) Andrew Davis at PaineWebber recommends the 6.5s of 2004 of Omnicom Group, a New York advertising agency. Each $1,000 bond, convertible into $835 worth of Omnicom stock, can be put back to the issuer at $1,230 in July 1996.

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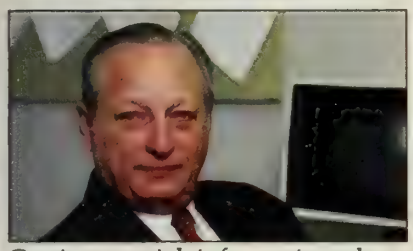
MONEY & INVESTMENTS

Thanks to investor outrage, more disclosure on municipal bonds is coming. Your muni holdings could rise in value.

A BETTER BREAK FOR INVESTORS?

By Ben Weberman



Getting crucial information about municipal bonds you own can often be only slightly less difficult than trying to convince the CIA to send you batches of classified documents on a regular basis.

There aren't any mandated filings like 10-Ks or quarterly reports for the municipal bond market. Bond trustees are historically reluctant to tell anybody anything—for fear of running afoul of insider trading regulations. As a result, the market is often hopelessly in the dark about all sorts of important matters like early redemptions, calls or defaults.

All this may change soon. Muni bondholders and dealers angry over the lack of broad disclosure have mounted a campaign with the Securities & Exchange Commission and the dealers' regulatory body, the Municipal Securities Rulemaking Board. As a result, some new disclosure guidelines may be in effect as early as this winter.

That's good news for bondholders. Because if disclosure becomes the norm instead of the exception, there'll be greater market efficiencies, lower costs to governmental issuers and a more liquid secondary market. Muni prices relative to the taxable market will likely increase.

The proposed guidelines, drawn up by the American Bankers Association—the trade group virtually all muni bond trustees belong to—include requiring broad disclosure of default notices, bond calls and interest rate changes. While the guidelines would be voluntary, the plan is to have the guidelines supported by a regulatory agency like the MSRB or the SEC—giving the guidelines more weight and putting pressure on all trustees to comply.

It is hoped the guidelines would prevent what happened to some investors who bought the 9⅞% Escambia County, Fla. revenue bonds, originally due 2009. Their dealer, St. Petersburg-based William R. Hough, traded the bonds at prices far above their real value—on the mistaken belief that they were collateralized to maturity and, therefore, defaultproof. They weren't.

Back in 1988 the bond issuers decided to call the bonds in 1993. But the market didn't know about it. "No disclosure was made to dealers or investors at the time," complains John. W. Waechter, executive vice president of William R. Hough. Even the notice of redemption wasn't published until a flood of complaints came from dealers.

They had a lot to complain about. As recently as three months ago, investors were paying $118 for the bonds to get 8.35% in yield to final maturity in 2009. What they were really getting was a meager yield of 3.20% to the first call in 1993. How much did they lose? When the news about the new call date finally came out about three months ago, the price of the bonds fell to $110, to yield 6.10% to the first call in 1993.

In another particularly outrageous case, Johnston, Lemon, a Washington, D.C. securities dealer, paid over $600,000, including a $43,000 premium, for bonds issued by the Portsmouth Virginia Redevelopment & Housing Authority in the fall of 1988.

What the dealer—and his customers—didn't know was that the developer had actually filed for protection under the bankruptcy laws earlier that year. The news about the bankruptcy came out within weeks after the purchase, and sent the bond price reeling. The 78 investors will be paid par value when the bonds mature in 1995. But the $43,000 premium is lost forever. Under the threat of a suit by investors, Paul Cinquegrana, managing director of fixed income at Johnston, Lemon, complained to the issuer's trustee and other officials about the lack of disclosure, but to no avail. "I assume that their strategy is to keep quiet and [that] we will go away," Cinquegrana wrote in an angry letter to the MSRB last year.

Under the guidelines, financial reports and listings of funds held by the trustee and any ratings downgrades would be reported through a database available to the entire market. The broadly disclosed data would then be available to both retail and institutional clients.

The ABA is accepting comments about the disclosure requirements until the end of this month. While many of the bank trustees would rather have no guidelines at all, many realize that a weak disclosure plan could well trigger investor demand for mandatory reporting and disclosure, as is the case with corporate bonds. The argument that mandatory rules would be onerous is belied by the easy time corporate bond issuers have had since passage of the Trust Indenture Act of 1939, a statute that was much resisted at the time. Whatever the outcome, J.J. Kenny Co., Inc., a municipal bond information provider, is preparing to offer a service, Kennyalert, that would permit trustees and issuers to notify the dealer community of information called for by the ABA disclosure guidelines.

While there's no guarantee that voluntary guidelines will work, some good first steps have been taken to protect the interests of bondholders—and reverse the traditional "investor be damned" attitude of the muni bond industry. ■

Ben Weberman is a contributing editor of FORBES magazine.

Is the Saddam Hussein selloff in the stock market a buying opportunity? Probably not, say the best long-term performers.

THE BEST ARE BEARISH

By Mark Hulbert

The Iraqi-induced wave of selling in the stock market is probably not a buying opportunity. That's the conclusion I draw from the fact that the investment letters with the best long-term records are significantly more bearish than their poorer-performing brethren. This strongly suggests that something is rotten in the stock market.

Among the top-performing letters, the average exposure to stocks currently stands at a cautious-to-outright bearish 30%. Among all newsletters that I track, in contrast, the average exposure to stocks stands at a dead-neutral 44%. For the first time in a number of months, the best performers have been more bearish than other investment newsletters.

There are two aspects to this bearish contrast between the best and the rest that are particularly noteworthy. First: the sheer magnitude of the best performers' bearish turn. When I last compared them (FORBES, *Jan. 22*), the average exposure among the decade's best performers was a robust 74%, more than twice the current reading and much higher than the average among all newsletters. The S&P 500 duly appreciated about 10%.

Second: Even after the most recent sharp correction, the best performers continue to be more bearish than their poorer-performing counterparts. Usually just the opposite is the case. Following a strong market move either up or down, the poorer-performing newsletters typically rush to a bullish or bearish extreme, respectively. (This is the basis of the Contrary Opinion Theory.) But the best performers provide a welcome antidote to the emotions of the moment, since, more often than not, they are more restrained. So it's a powerful warning signal when even after a sharp correction they remain more bearish than the average newsletter. Like right now.

What are the best performers telling us? The fact that they made their bearish turn prior to the recent Middle East hostilities is significant. It means that the bearish factors that worry them run deeper than the Iraqi invasion, and that they don't envision a return to bullish good times, even if Iraq withdraws from Kuwait and oil drops back to its pre-invasion price.

Martin Zweig, whose *Zweig Forecast* is at the top of my list for performance over the last ten years, fears that investors will focus too much on the Middle East flare-up and conclude that recent market weakness is due only to the oil-price rise. In fact, according to Zweig, the situation was bleak already, despite the rosy picture painted by indexes like the DJI or the S&P 500. According to Zweig's tally, the average NYSE stock has now broken its long-term bull market trend line, which dates back all the way to 1974. Obviously, he concludes: "Something besides oil is amiss." He is currently more than 80% in cash.

To be sure, Zweig is a trader, and he may have changed his market exposure by the time this is published. But another top performer, Dan Sullivan of *The Chartist*, is more long term. And Sullivan, too, is convinced that this divergence between the blue chips and secondary stocks is classic bear market behavior. The majority of all stocks were going down even prior to the Iraqi invasion, Sullivan points out. Indeed, more than 60% of all stocks are below their average 1989 level.

Not all of the best performers are outright bears. But even the most bullish newsletter among the top performers over the last decade, the *Value Line Investment Survey*, has a recommended stock market exposure of just 65% to 75%. *Value Line* is concerned about "the wear and tear on this aging recovery," particularly weak auto sales and the deepening housing slump.

In fact, weakness in the real estate sector figures prominently in the worrying being done by all of the top performers. Charles Allmon, who runs another top-performing newsletter, *Growth Stock Outlook*, is the most bearish of all. He points out that the real estate market in the U.S. is more than five times as large as the equity market. Thus, he reasons, a 20% decline in real estate values—a real possibility, in his opinion—would drain more wealth out of the economy than is currently represented by the entire U.S. stock market. Of course, Allmon has been crying "bear" since 1986 and has been heavily in cash throughout a generally rising market, but that doesn't mean he won't finally be right.

Right now Allmon is keeping his model portfolio 90% in cash. His longstanding bearishness has caused him to underperform the market since 1986 (although not by as much as you might think, because the T-bill rate has compounded nicely). But he is still the top performer on a risk-adjusted basis over the decade.

Remember, it was not the Kuwait invasion that turned these top performers bearish; they already were. This augurs badly for the stock market and suggests strongly that the Saddam Hussein selloff won't be a good buying opportunity. ■

Mark Hulbert is editor of the Alexandria, Va.-based Hulbert Financial Digest. *His newest book is* The Hulbert Guide to Financial Newsletters *(Probus Publishing).*

Don't see the panic that followed the Iraqi invasion as a buying opportunity. The market looks more and more like 1974.

WHAT THE MARKET IS TELLING US

By A. Gary Shilling

he Iraqi invasion of Kuwait laughtered U.S. stocks, but even efore that happened most of the arket was weak. Through July of is year the DJI rose 5.5%, but only 7 of its 30 stocks were up, while e much broader Value Line index ll 8.1%.

Worried about high interest rates d a weak economy, investors ave favored just a few drug, high-ch companies and other growth ocks whose earnings are suppos-lly impervious to cycles. Now, ith the Iraqi military adventure, other small group, oil and defense ocks, are getting the play.

A similar narrow focus occurred the early 1970s, when growth ocks were also the rage. "Why ther with mundane old cyclicals at not only have to be bought but ld, right?" Wall Street sages asked etorically. They favored "one-cision" stocks whose earnings ew so consistently that they ould be bought but never sold. d even though they were selling 40, 50 or even 70 times earnings, eir profits growth was so rapid that they were still cheap, we were assured. Stocks with disappointing earnings were simply dropped from the "Nifty Fifty" list.

I saw this firsthand at the Wall Street firm White, Weld when I joined its investment policy committee in 1971. By mid-1972 the committee meetings became heated debates among me and my boss—the committee chairman—and another seasoned investor. They were committed, longtime growth-stock buyers who became more enamored of their favorite equities as these prices jumped, while I got more skeptical. After one particularly stormy meeting, my boss said, "Gary, you just can't let these stocks' high P/E ratios stand in the way of great investment opportunities."

"My concern," I replied, "is not with these stocks' risk. It just bothers me that the only things investors want are amusement parks, hamburger stands, gimmick cameras and motor homes." I was referring, of course, to Disney, McDonald's, Polaroid and Winnebago, the darlings of the day. "These don't represent the guts of the economy," I said. "When investors shun the vast bulk of stocks, they are telling us there's something terribly wrong with the basic economy."

And investors were absolutely correct. The massive inventory buildup then under way led to the 1973-75 recession, the worst since the 1930s. The Dow Jones industrial average plunged 45% from its 1052 peak in January 1973, to 578 in December 1974. The darlings of the growth-stock cult swooned. Polaroid's price collapsed from almost 150 per share to under 15; Xerox shares dived from about 150 to 50.

So I have seen today's market before. Investors are once again crowding into fewer and fewer stocks, and in the process bidding their prices to levels where no errors are acceptable. United Telecommunications' stock dropped almost 30% after a second-quarter earnings upset. Advanced Micro Devices plunged 1¾, to 7¼, on disappointing earnings. Even good results haven't necessarily sustained growth stocks. Storage Technology's second-quarter earnings beat analyst estimates by 27%, but management's forecast of softening U.S. demand drove the stock down 34%.

How do you manage your portfolio in this minefield? To begin, don't wait for the new Nifty Fifty to shrink to the Terrific Ten and then the Fantastic Five. Few companies are truly independent of the business cycle, and the recent jump in oil prices adds plausibility to my belief that the U.S. economy is already in a recession. Higher energy costs deflate purchasing power, and renewed inflation fears keep interest rates at economy-killing heights. My forecast of a global recession is also enhanced. Japan, almost 100% dependent on imported energy, is very vulnerable.

Don't see the Iraqi invasion of Kuwait as a buying opportunity. Instead, use any further stock market rally to unload stocks, even the remaining darlings, and shift aggressively into the Recessionist's Portfolio outlined in my Sept. 18, 1989 column: High-quality, long-term bonds, especially Treasurys; telephone and electric utility shares. If you are more aggressive, short cyclical stocks or the overall market, copper and other cyclically sensitive commodities, real-estate-heavy banks, LBOs and the dollar against European currencies. The Japanese stock market may go a lot lower, so the Nikkei puts recommended in my Apr. 16 column remain attractive. As in the mid-1970s and early 1980s, a worldwide slump will drive down oil prices and sink oil stocks, so prepare to short them as well.

Even while the averages were rising to new highs, the stock market was sending us a different message. It is this: When investors concentrate on a tiny fraction of stocks and neglect the rest, they are telling you that they don't like the economy. And when the economy recedes, few stocks avoid the downdraft. ■

Gary Shilling is president of A. Gary Shilling & Co., economic consultants and asset managers. His firm publishes Insight, *a monthly newsletter covering the business outlook and investment strategy.*

The market's panicky reaction to Saddam Hussein is just one more sign that fear is beginning to replace greed as the dominant mood among investors.

JAWS III?

By Frederick E. Rowe Jr.

A publicity-shy friend who manages an almost unimaginable amount of money for national pension accounts describes the current stock market as "Jaws III." "Jaws I" took place in February 1973 and "Jaws II" took place in August 1987. The vivid imagery stems from the similarity of the chart patterns in all three periods. The crashes that followed Jaws I and II were monumental. If one simultaneously plots the rising popular indexes like the Dow or the S&P 500, and the declining advance/decline lines during all three periods, the pictures look exactly like a big shark's mouth getting ready to snap shut. What the charts reflect, of course, is that the big averages are rising while fewer and fewer stocks participate in the advances.

Not only are chart patterns ominous, stock market valuations are unattractive. Relative to bonds, dividend yields, book value and price/earnings multiples, it is hard to make a compelling case for stocks. All of which presupposes that the investment process is rational. It frequently is not. Which explains why the averages were up most of this year.

Frederick E. (Shad) Rowe Jr. is the general partner of Dallas' Greenbrier Partners, a hedge fund.

During a bull market, investors seek to maximize their returns, given whatever risk constraints they are willing to live with. During a real bear market, investors seek only to save their principal. Greed gives way to fear.

It seems to me greed has held the upper hand to fear since 1982, for reasons that have partly to do with the calendar and partly with the psychology of the institutional investors who dominate the market.

One of my slightly abusive partners once asked me why I even bothered to show up for work during the first nine months of the year. As a stock picker, I have had far more success as a short-seller than as a long buyer. For the last several years most of the modest success that we have had has occurred in the fourth quarter, when our short sales produced meaningful results.

I can tell you from unpleasant and hard-won experience that it is far easier to manage money when you are up than when you are down. Since 1983, and until this year, most money managers have gotten off to rip-roaring starts in January. Even with the October 1987 crash, the S&P 500 was still up for the year.

It is much easier to make objective decisions when you are up for the year. It is much easier to sleep if your positions are moving against you when you are up. We are all judged over time based on our annual compounded rates of return.

But it is an understatement to say that it has been difficult to make money on the long side in 1990. The Value Line Geometric index of 1,650 stocks, which probably gives a clearer indication of how most investors actually perform tha does the S&P 500, is currently dow 14%. Most mutual funds and mo investment advisers are likewis down for the year.

My sense is that this year's u nerving experiences have dimi ished the capacity of institution investors to react objectively an the ability of their clients to r spond calmly. The panicky reactio to the events in the Middle East w a sign of fraying nerves. Fear is gra ually taking over from greed. A fu ther setback from here could sen the cattle stampeding.

So, it is perhaps a good time to d nothing. If I were pressed to d something on the long side, I migh nibble at a few Texas "franchise companies, which should do well rising oil prices raise southwester economic prosperity. *A.H. Belo Cor* (35) publishes the Dallas *Mornin News.* With the recent decline of th Dallas *Times Herald,* the *News* is no virtually a monopoly newspape and should benefit from that posi tion of dominance. A rising south western economy should help tele phone traffic at *Southwestern Bell* (54 and passenger traffic at *Southwe Airlines* (24).

Banks and real-estate-relate companies have been particularl hard-hit in what so far has been modest stock market decline. think they have a good deal furthe to go on the downside. Lenders an investors are gradually awakenin to two sad facts. First, real estat appreciation must ultimately relat to cash flow and, second, deprecia tion is a real expense. The *Rouse Co* (20) is a popular real estate pla among institutional investors. Th stock sells at a modest 160 times earnings. It owes approximately $1.8 billion. If you subtract "capita expenditures for existing proper ties" from net income, as I believe you should, the company is losing a great deal of money. (If they don't make capital improvements to existing buildings, the tenants leave.)

With the downturn in the California real estate market, most California real estate finance stocks have been hard-hit—with the exception of *Wells Fargo* (62), which remains an institutional favorite. Wells Fargo still sells at a big premium to book value and has the highest commitment of assets to highly leveraged transactions and LBOs as a percentage of equity of any major bank in the country. I would avoid it. ■

Weak profits and oil shocks do not necessarily make for bear markets.

DON'T PANIC

Charles E. Babin

In my "Why Bearish Is Bullish" column (FORBES, *May 14*) I advised against letting a faltering economy and disappointing corporate profits color our thinking about stocks. Now the picture is muddled by the oil price surge triggered by Iraq. But if history is any guide, equity markets will weather both storms.

Even before Iraq swallowed Kuwait, Wall Street's bears were skeptical. In July, when the S&P backed off 2% from its alltime high, the financial press abounded with stories attributing the shock to poor earnings comparisons and warning that profits and, hence, share prices would most likely remain depressed for the foreseeable future—a scenario made more plausible by the Middle East crisis.

I disagree. The ability of even accurate profits estimates to presage the market is iffy.

When it comes to security analysis, perhaps no single factor consumes as much horsepower as forecasting corporate earnings. Conventional wisdom holds that investors armed with accurate profit estimates stand to gain. Statistical methods do confirm a relationship between current-year stock price and the upcoming year's earnings. But use of this linkage as a market barometer is questionable.

A casual examination reveals the danger of relying too heavily on profit projections to set equity strategy. Imagine that earnings could be forecast perfectly. Many investors might have soured on equities in 1984 had they known that profits would fall 22% in 1985—followed by another drop in 1986. They would have missed a 6% return in 1984 and an incredible 32% in 1985. It wouldn't have been an isolated incident.

The table shows that the Composite's earnings-per-share growth declined on four occasions during the volatile 1980s. But only one of these events was preceded by a negative stock market. What's more, the robust 1985 stock market was followed by a profit decline, while the best earnings year (1988) was preceded by an anemic market.

Even if perfect earnings estimates were possible, would it matter?

	Investment return from stocks[1]	Following year's profit growth[2]
1980	32.4%	3.6%
1981	–5.0	–17.7
1982	21.6	11.0
1983	22.6	18.6
1984	6.4	–22.0
1985	32.0	–1.0
1986	18.8	20.9
1987	5.2	35.7
1988	16.6	–3.7
1989	31.6	8.5[3]
Average	16.0	5.4

[1]S&P appreciation, plus dividends. [2]S&P 500 earnings per share. [3]Estimate.

Back-testing to 1958 indicates that less than 20% of the annual fluctuation in the S&P's total return can be attributed to the following year's profit growth. An enhanced relationship is uncovered by rolling out the forecast horizon yet another year and measuring earnings momentum, i.e., the acceleration or deceleration of earnings growth. Nevertheless, even this correlation's power to steer equity commitments is limited.

Does the Iraqi situation strengthen the bearish case? Maybe. But experience with previous oil disruptions suggests that there's reason not to give up on stocks. During the Iranian oil crisis (1978-79), equity returns were positive. And in 1980 the S&P's total return topped 32%, amid recession and flagging profits.

The OPEC oil embargo (1973-74) preceded the 1974-75 recession. But only in 1974 did the stock market decline (26%), perhaps anticipating an even deeper recession in 1975. Still, it would have been a mistake to panic. The S&P recovered in 1975 and tacked on 25% in 1976.

Thus, in my opinion, weak profits and Iraqi sword-rattling do not necessarily make for a bear market through 1991. For tactical decisions, what's needed is a variable that anticipates the stock market and can directly estimate its investment potential. Fortunately, there's a solution: interest rates.

History shows that competing financial markets do not move in unison and that careful monitoring of the credit market, as measured by three-month Treasury bills, can be a useful guide in making equity decisions. For more than a year—even in the face of an oil crunch—interest rate movements have been signaling a positive outlook for stocks.

While there are land mines, investors should be wary of gloom-and-doomers. In the week after the Kuwait invasion, the S&P declined less than 5% and was within about 8% of its July peak. Today's market is proving remarkably buoyant, in spite of frightening news from the Persian Gulf and weak profits at home. That the market is this resilient suggests that 1991's business environment will be healthier than many experts suspect, Saddam's ambitions notwithstanding. ■

Charles E. Babin is managing director of BRS Capital Management, Inc., an investment management firm, in Boston.

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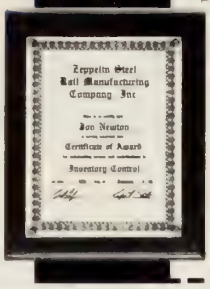

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Streetwalker

Edited by Thomas Jaffe

Don't sell the U.S. short

Lawrence Veit, an international economist at Brown Brothers Harriman, thinks both the U.S. dollar and U.S. markets look favorable right now compared with foreign markets and foreign currencies.

This is clearly a minority view: During the first quarter of 1990 overseas investors were net sellers of U.S. securities for only the second time since the third quarter of 1983. Weekly and monthly data from Brown Brothers suggest the trend continued through the second quarter.

What of the last couple of weeks?

"Since the Kuwait crisis," says Veit, "there haven't been the safe haven money flows to the U.S. you normally would have expected. But no stock market has been a safe haven since this crisis began. Investors are reevaluating whether they want to hold stocks, cash or fixed-income securities, and they're voting for cash."

In that case, what are the prospects for the U.S. dollar? Veit expects it to strengthen in relation to European currencies. One reason: According to his estimates, in 1990 the hourly compensation of production workers (measured in dollars) will be $14.88 for Americans, versus $19.89 for Germans. "Over long periods of time," he says, "this is the kind of measure, not euphoria over something like German reunification, that really moves exchange rates in a fundamental way."

Veit also looks for a fairly sustained improvement in the U.S. balance of trade. Between 1987 and 1989, he notes, the current accounts deficit was cut by about one-third, to $110 billion. In 1990 he expects a further reduction, to $86 billion.

Concludes Veit: "When I look at some European portfolios that have only 5% of their global assets in U.S. equities, I think they're making a very dangerous negative bet. The U.S. stock market could well outperform."

Carl's cap shrink

Carl Lindner has had some bad luck lately with his investments in Circle K and Great American Communications (FORBES, *Dec. 25, 1989*), but the Cincinnati-based financier isn't in such bad shape. His private company, American Financial Corp., owns 34% of the 63 million shares of Penn Central Corp., and over the past few years Penn Central has amassed a cash hoard of $1.2 billion, or $19 a share, through a string of asset sales. The market doesn't much like conglomerates, so Penn Central recently sold at just 23⅞ on the NYSE, or not much more than what's in the till—making it one terrific investment.

Penn Central proposes to use $156 million of that cash to buy back 6 million shares, or 9% of its common, at $26 apiece. As a result, Chairman Lindner's stake would rise to 38%. If the tender offer is oversubscribed, the company may spend an additional $39 million for another 1.5 million shares. And that would still leave roughly $1 billion in cash on hand.

Penn Central's remaining businesses aren't especially exciting—wire and cable, heavy industrial equipment, defense and insurance. But they are sound enough that analyst Donald Zwyer of Kidder, Peabody expects the conglomerate to earn $2.50 a share in 1990 and $3 in 1991 from these businesses and from income from the cash hoard. These are untaxed profits, as Penn Central has substantial net operating loss carryforwards left over from its long ago railroad days.

Zwyer likes what Lindner's doing here and suggests that investors follow his lead: Buy or hold the stock and let the buybacks gradually increase their proportionate ownership. Zwyer sees the stock at 35 in a year.

Credibility gap

News of disappointing earnings prospects for chains that operate office products superstores have lately sent the o-t-c stocks of BizMart Inc., Office Club Inc. and Staples Inc. tumbling. Could this have been foreseen a couple of months ago? Probably. By then the stock of Office Depot Inc., also in the business, was down considerably from its 12-month high. Funny thing about highly touted growth companies, though. One rarely hears their investment bankers—ditto the security analysts who work for those firms—sound a cautionary note until after the fact.

Take BizMart, which Alex. Brown & Sons brought public. In July Brown co-underwrote a secondary offering of 2.75 million BizMart shares. Pr[illegible] $15.75. Recent price: 10⅞. In J[illegible] Staples sold $70 million of conv[illegible]ible subordinated debentures in an[illegible]fering comanaged by Goldman, Sa[illegible] and Montgomery Securities, thro[illegible] which it originally went public. W[illegible] the prospectus was published, [illegible] stock was at 25. Recent price: 18[illegible]

Both these companies may [illegible] prove to be stars. But thanks to th[illegible] handlers, their credibility currentl[illegible] low. The best advice we can g[illegible] therefore, is to pass on both sto[illegible] even at the depressed prices.

An office products superstore
Giving investors the business?

In this respect Salomon Broth[illegible] and William Blair & Co. may dese[illegible] some credit. A July red herring for [illegible] offering by Office Club of 1.3 milli[illegible] new shares was based on an assum[illegible] offering price of $15.25 a share. B[illegible] Salomon's analyst lowered his ea[illegible]ings estimate for the company, a[illegible] the underwriters might postpone t[illegible] deal. Recent price: 12¾.

Boise noise

In early August the stock of Boi[illegible] Cascade Corp. rose 5 points in o[illegible] day on rumors of a possible takeov[illegible] bid for the forest products and pap[illegible] firm. Its 38 million shares had be[illegible] around 30, near their 12-month low.

The buzz accompanying the run[illegible] was that $4.3 billion (sales) Bois[illegible] assets are worth $80 to $90 a sha[illegible] Including long-term debt, that wou[illegible] make for a deal of $4.5 billion [illegible] more. Not likely, says one of Stre[illegible]walker's best sources. More realist[illegible] says he, would be $50 to $60, or six [illegible] seven times the $8.30 a share of ca[illegible]

ow (net income, deferred taxes and preciation) he thinks Boise will nerate this year.

So far no buyer has surfaced, and cently the shares have eased a bit, to ⅛ on the NYSE. Those waiting for ise to catch fire should know that is isn't the first time Boise has been uted as a target, and in the past ose rumors have gone up in smoke. Like others in its industry, this mpany has been hit hard by a cycli- l downturn. Our source doesn't ink Boise will earn much more than a share either this year or next. hich means it's trading at around 17 nes estimated 1990-91 earnings. mpare that with the P/E carried by ernational Paper, generally consid- d to be a superior company. At a ent 51½, IP sells for just eight nes the $6.50 a share our source pects it to earn this year.

Boise is clearly vulnerable to a sell- that could drop it into the 20s.

bleware fable

n March Brown-Forman, the big listiller that also owns Lenox Chi- bought Kirk Steiff Co., a flatware ker. Several months later, in its nual report, Brown-Forman's chair- n said the company was looking acquisitions to complement its ortfolio of premium products." So o might the targets be, investors asking. One name that's come up Oneida Ltd., the $409 million les) manufacturer of tableware and ustrial wire products.

At a recent NYSE price of 11⅜—near 12-month low—the stock certain- is cheap, at less than eight times t year's earnings. The company o sells for just five times estimated h flow. Say the bulls, it's worth as ch as $20 a share. (There are 10 llion shares outstanding.)

But analyst John Walthausen of Al- ny's C L King & Associates doesn't nk a deal is forthcoming. Oneida defended itself with a poison pill, l an employee stock ownership n owns 14%. What's more, Oneida heap for good reason. For the fiscal r ended Jan. 31, the Oneida, N.Y.- ed company earned $1.51 a share, ut the same as during the previous years—and the trend is down. lthausen thinks that in the current r Oneida will earn just $1 a share. ile he thinks it can recover to 50 in fiscal 1992, that would only earnings back to 1988-90 levels.

'he plain fact is that sometimes a ap stock deserves to be just that.

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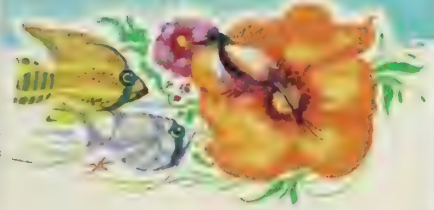

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Sources: Mendelsohn Media Research, 1989 / Don Bowdren Associates, 1990

ET SCOREBOARD

oes in on car thieves

LIGHT

Homing in on LoJack

LoJack (LOJN)[1]	'88	'89	'90 est.	'91 est.
Revenue (millions)	$2.0	$4.9	$5.0	$15.0
Net income (millions)	-$0.9	$0.1	-$2.0	-$3.1
Earnings per share	-$0.09	$0.01	-$0.17	-$0.27
Hq: Needham, Mass.	Exch. OTC		Employees. 82	
Div./yld. nil		P-E. -	Shares: 11.5 million	
52-wk. high/low $5[illegible]/$4[illegible]			Tues. price: $5[illegible] -7/8	

Earnings estimates: analysts consensus. Zacks Investment Research. Revenue estimate: Lazard Freres, Thatcher & Co. [1]Source: OTC-DQX research. [1] for fiscal years ending Feb. 28

Tokyo drop, rises 9.01

By Paul Wiseman
USA TODAY

MARKET WATCH

Behind the market: Taking a cue from a 2.5% overnight slide on Tokyo's Nikkei average, U.S. stocks lost ground early. After 10 minutes of trading, the Dow was down 2.81 points. But a late-morning rally in the blue-chip market carried stocks back into positive territory. Points faded, but stocks held their gains. By noon, the Dow was up 5.18 points. Two hours later, the gain had stretched to 9.46 points.

Most investors stayed on the sidelines. Some are taking the week off for Passover or Easter. Investors also were jittery Tuesday about the Resolution Funding Corp.'s $3.5 billion auction of 10-year bonds for the savings and loan bailout. (Story below.)

Adrian Groupe, Matthews Barkin, figures the market will drift for the next several weeks as Wall Street waits for more companies to unveil results for the quarter ended March 31. "People will lose some corporate earnings for the first quarter and maybe some economic numbers before they start making any serious commitments," he says.

Market highlights: Wall Street again favored defensive stocks: **Procter & Gamble** climbed 1¾ to $70⅞ and **Coca-Cola** added ⅞ to $44⅞.

▶ **Digital Equipment** advanced 1⅞ to $81⅞. As previously reported, optimism is growing that the computer company's earnings for the third quarter (ended March 31) will turn out to be better than expected.

▶ Among other technology stocks, **Compaq** surged 2⅛ to $46⅞. **Hewlett-Packard** tacked on 1⅜ to $45⅛, and **Texas Instruments** rose 2¼ to $37½.

▶ **Adobe Systems** jumped 1⅜ to $36½ after Shearson Lehman Hutton upgraded its recommendation on the software company to a strong buy.

▶ Also rising on analysts' comments: Drug research firm **XOMA** rose 1¾ to $19⅞, since retirement has signal from Alex Brown & Sons. **Tambrands** added 1⅜ to $57, on bullish comments and higher earnings estimates from Donaldson, Lufkin & Jenrette.

▶ Several bank stocks got a lift from positive comments by Merrill Lynch. **Manufacturers Hanover** added 1½ to $31½, **NCNB** climbed 1⅛ to $37⅝, and **Citicorp** inched up ⅜ to $24⅛.

▶ **Peerless Manufacturing**, which makes equipment for the natural gas industry, jumped 7⅞ to $41⅞ on speculation it will benefit from a tax-law legislation pending in Congress.

▶ **Lancaster Colony** jumped 3¼ to $23 on news Newell (up ¼ to $24⅝) has 5.6% and is considering a takeover.

▶ **Automated Systems** surged 3⅛ to $6¼ on news the data-processing and software company will be acquired by **Cadence Design** in a stock swap. Cadence gained 1⅛ to $24⅞.

▶ **Hilton Hotels** gave up ⅞ to $51¾ after Barron's Hotton said *The Wall Street Journal* he has no plans to sell the company and plans to focus instead on strengthening its core businesses.

▶ NYSE volume leader **Ames Department Stores** lost ⅞ to $24⅞ after saying late Monday that it expects a 1990 loss, estimated at $224 million.

▶ **AMR** rose 2 to $65⅞. The American Airlines parent is taking a close look at making a bid for Aerolineas Argentinas. The Argentine government, which owns the airline, is selling 85%.

▶ **Structural Dynamics Research** climbed 1½ to $38¼ after the software supplier and engineering services company reported a 52% gain in earnings.

Key indexes: NYSE's composite rose 0.26 points to 187.63. NASDAQ's OTC composite was up 1.72 points to 431.90, and the Amex market value slipped 0.16 points to 359.52.

&L bailout bonds with disdain

Gallagher, economist at Kidder, Peabody & Co.

Problems with the auction showed up in other ways. The spread between the average yield accepted and the highest yield accepted was 0.05 percentage points — 8.94% for the high vs. 8.89% for the average. When an auction goes well, all the bonds are sold at a yield no higher than 0.01 to 0.02 points above the average. "A spread of 5 basis points [illegible] bad. It means [illegible] ment had to [illegible] higher yield," says Gallagher.

The spread was the same as last January's auction. The average yield then was 8.60%, and the government had to accept yields as high as 8.65% to sell the entire $5 billion issue. This time, however, Uncle Sam auctioned a smaller amount — $3.5 billion — in hopes the market would have an easier time digesting it. "But the market [illegible] ked on it just as badly [illegible] ch it [illegible] ter [illegible]

are as high as $500 billion. "It's a nasty reminder that there's going to be a lot more supply of REFCO bonds down the road," says Randell Moore, editor of *Blue Chip Financial Forecasts*.

All this bodes ominously for the big Treasury auction in early May when Uncle Sam will sell $10 billion each of 10-year T-notes and 30-year T-bonds. "There's not much to [illegible] buying Treasuries ahead of auction," says G[illegible] "[illegible] all the May [illegible]

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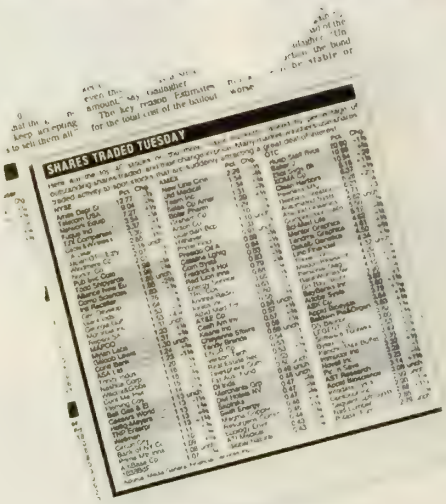

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PEOPLE GET INTO IT BECAUSE THEY GET SO MUCH OUT OF IT.

Flashbacks

Edited by Dero A. Saunders

"The more things change. . . ."
Items from past issues of FORBES

eventy years ago in FORBES

om the issue of September 4, 1920)

Vhen, oh! when, will we poor delud- mortals realize that we cannot get mething for nothing? It was the de- sion that a slick young Italian had scovered a mysterious method of aking millions while-you-wait, and was graciously making thousands persons rich overnight, which oved hordes of credulous, greedy in- cents to send their savings to Ponzi be doubled in a few months. . . . d so the moths flocked to Ponzi's ining light—and, of course, had eir wings singed."

mmigrants are now arriving at the e of 5,000 per day. During the year ded June 30 new arrivals were 0,000. Shipping companies report at all available accommodations for ear in advance have been booked by ospective immigrants."

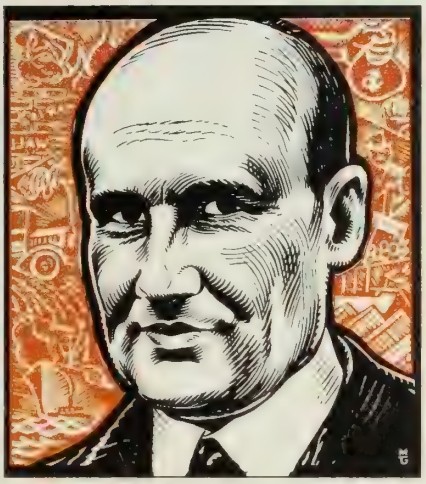
xty years ago

om the issue of September 1, 1930)

Iate for the development of retail siness in the automotive industry s been a freely movable point ever ice the first of the year, and opti- sm regarding its approach has been ely tried as month after month has ne by without marked increase in ying demand. The lack of public erest in the motor vehicle, by con- st with recent years, has been re- irkable—and disturbing."

ntiac Big Six ad in 1930 urged fleet ers to "compare the cost per mile"

he greatest of all match producers, Swedish Match Co., has an abso- e monopoly in Poland, Peru, eece, Ecuador, Estonia, Hungary, goslavia, Latvia and Rumania, and nost complete control in Germany, eat Britain, France, Italy, India, Ja- n, Turkey and in several countries South America. Together, these ntries, often desperately in need,



Swedish match king Ivar Kreuger before his unmasking as a king-sized embezzler

have borrowed from the most powerful of all international trusts the enormous sum of $350 million at moderate interest, in exchange either for a complete monopoly of the manufacture and sale of matches or else the lion's share of the business."

Fifty years ago

(From the issue of September 1, 1940)

"It's getting harder and harder to forecast coming issues. The reason, of course, is that things happen so fast these days that no one on earth can foretell what topics will be most important a fortnight ahead."

"Late business reports reveal sidewise movement but at a generally high level—except in commodity prices, which are none too strong, and in securities markets, where New York Stock Exchange seat sells at lowest price since 1914 and share trading shrinks to smallest full-day volume since 1916."

"Apparently washed up with politics, Jim Farley this month returns to private business. He has been named chairman of the Coca-Cola Export Co., with interests in 76 foreign countries. At the same time, he is said to head a syndicate which has bought out the New York Yankees. . . ."

Twenty-five years ago

(From the issue of September 1, 1965)

"Ten major world airlines, including Pan American, Continental, American and TWA, already have orders in for the Concorde, the 1,450-mile-an-hour supersonic commercial plane that Britain and France are building jointly. If the plane [is delivered] as scheduled, some time in 1971, there probably will be a rush to buy it."

"The four-week vacation is getting to be a common thing. Two-thirds of 1,600 corporations surveyed by the National Industrial Conference Board now give four-week vacations to some employees vs. only 15% in 1956. . . ."

Ten years ago

(From the issue of September 1, 1980)

"For most of the summer it has cost $129 to fly from New York to Los Angeles or San Francisco, about 40% of what it cost early in March. Can any of the seven airlines flying these transcontinental routes make money at those prices? How can they? Then why do they all do it?

"Because they can't afford not to, that's why. These transcontinental runs are the biggest prizes up for grabs in the war breaking out among the nation's trunk airlines as a result of deregulation. . . ."

Post-deregulation 1980 airline ads

"When the Carter Administration imposed its freeze on Iranian bank deposits last November, the international financial system was shaken to its foundations. Fears suddenly cropped up that other [OPEC] members would soon shift funds out of U.S. banks. . . . Fortunately, the fears have so far proved groundless."

Perseverance is more prevailing than violence; and many things which cannot be overcome when they are together, yield themselves up when taken little by little.
PLUTARCH

To travel hopefully is a better thing than to arrive, and the true success is to labor.
ROBERT LOUIS STEVENSON

He that can't endure the bad,
Will not live to see the good.
YIDDISH PROVERB

There is one quality more important than know-how, and we cannot accuse the U.S. of any undue amount of it. This is know-how by which we determine not only how to accomplish our purposes, but what our purposes are to be.
NORBERT WIENER

It is not necessary to hope in order to undertake, nor to succeed in order to persevere.
CHARLES THE BOLD

Try first thyself,
And after call in God;
For to the worker
God himself lends aid.
EURIPIDES

A windmill is eternally at work to accomplish one end, although it shifts with every variation of the weathercock, and assumes ten different positions in a day.
CHARLES CALEB COLTON

I have begun several things many times, and I have often succeeded at last. I will sit down, but the time will come when you will hear me.
BENJAMIN DISRAELI

Thoughts
on the Business of Life

The very first task given Harvey D. Gibson on entering the Boston office of the American Express Co., when he left college, was to shoulder a couple of knapsacks—after he had finished sweeping the floor—and deliver bundles of canceled checks to local banks. The first bundle he delivered was from the Liberty National Bank of New York. Fifteen years later he became president of this same bank.

Had he scorned to sweep the floor, as being beneath the dignity of a college-bred youth, is it likely that he would be where he is today?
B.C. FORBES

Fortitude: That quality of mind which does not care what happens so long as it does not happen to us.
ELBERT HUBBARD

Adversity introduces a man to himself.
ANONYMOUS

He who knows how to be poor knows everything.
JULES MICHELET

Life has not taught me to expect nothing, but she has taught me not to expect success to be the inevitable result of my endeavors.
ALAN PATON

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Elbow grease is the best polish.
ENGLISH PROVERB

Adversity is sometimes hard upon a man, but for one man who can stand prosperity, there are a hundred that will stand adversity.
THOMAS CARLYLE

By perseverance the snail reached the Ark.
CHARLES SPURGEON

To industry nothing is impossible.
LATIN PROVERB

A Text . . .

And the tongue is a fire, a world of iniquity: so is the tongue among our members, that it defileth the whole body, and setteth on fire the whole course of nature; and it is set on fire of hell.
JAMES 3:6

Sent in by Florence Freilino, Leechburg, Pa. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

Bravery: A cheap and vulgar quality, of which the brightest instances are frequently found in the lowest savages.
PAUL CHATFIELD

Without perseverance talent is a barren bed.
WELSH PROVERB

Courage: The lovely virtue—the rib of Himself that God sent down to His children.
JAMES M. BARRIE

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September 17

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TOYOTA

*J.D. Power & Associates 1990 Initial Quality Survey.[sm] Based on owner-reported problems the first 90 days of ownership. Cressida ranking 1987, '88 and '90 Initial Quality Surveys. Get More From Life . . . Buckle Up! © 1990 Toyota Motor Sales, U.S.A., Inc.

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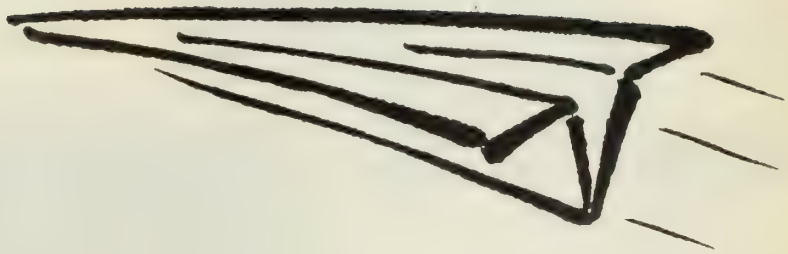

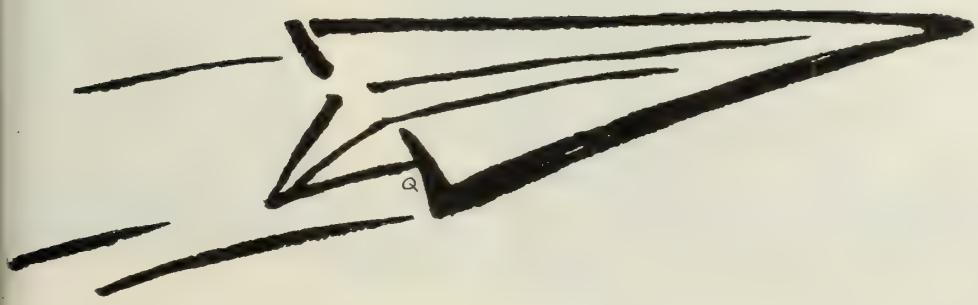

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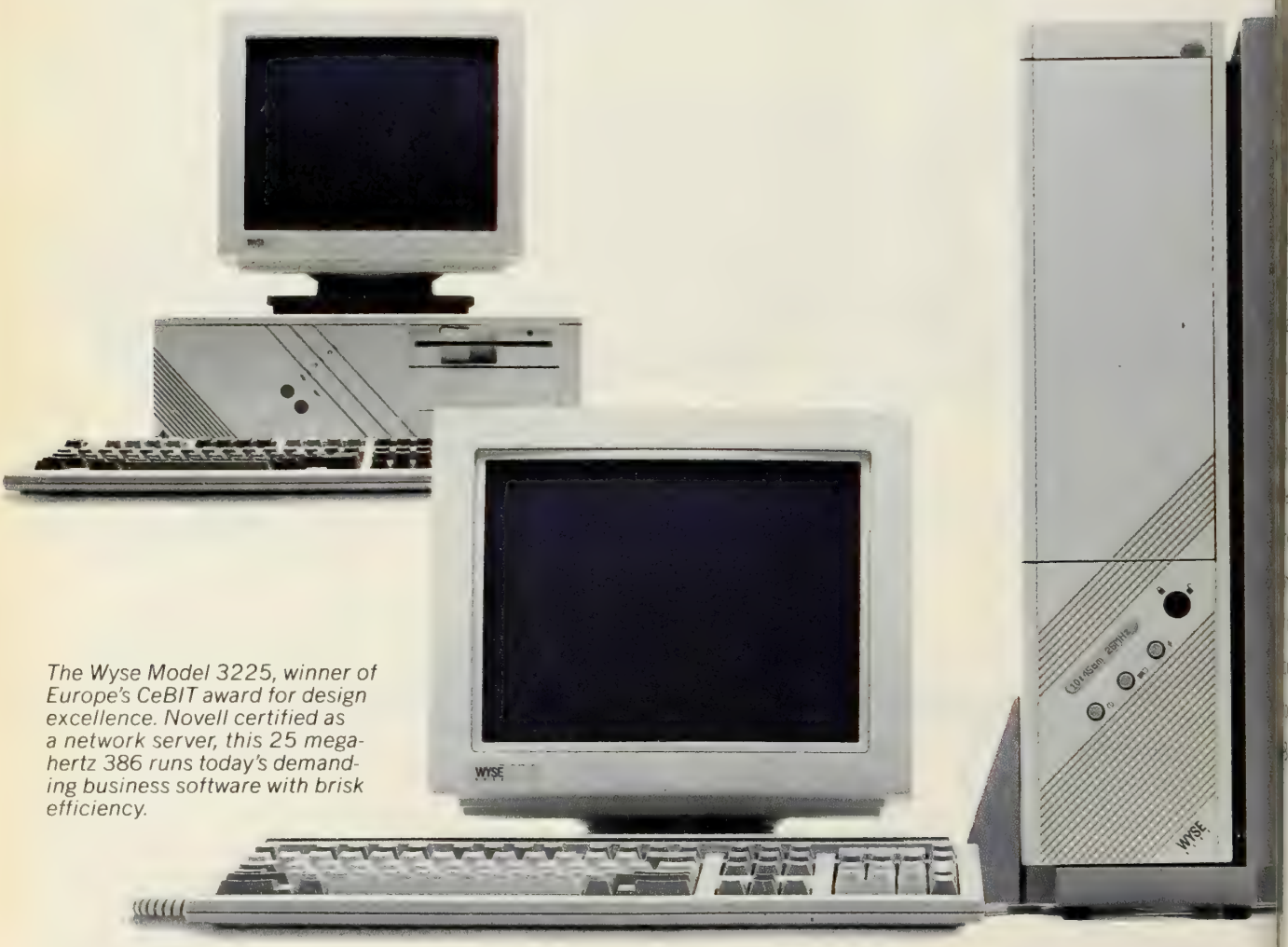

The Wyse Model 3225, winner of Europe's CeBIT award for design excellence. Novell certified as a network server, this 25 megahertz 386 runs today's demanding business software with brisk efficiency.

[1]Source: IDC 1989 Terminal Census

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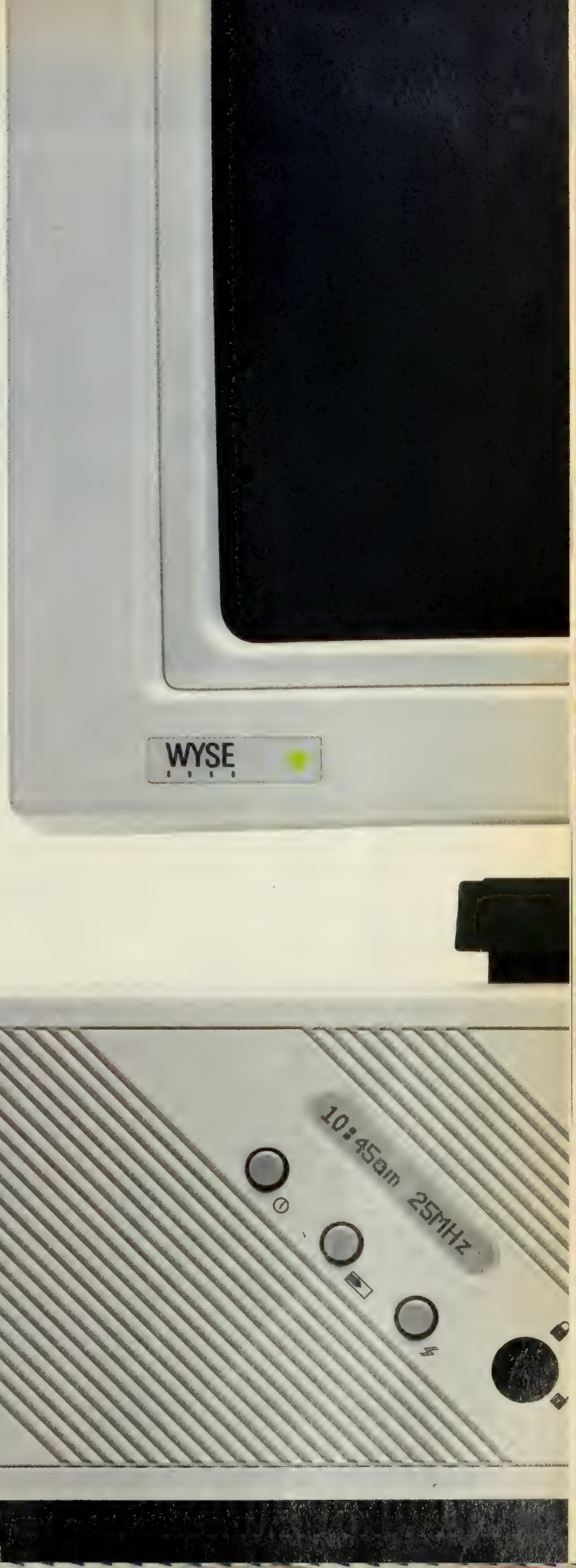

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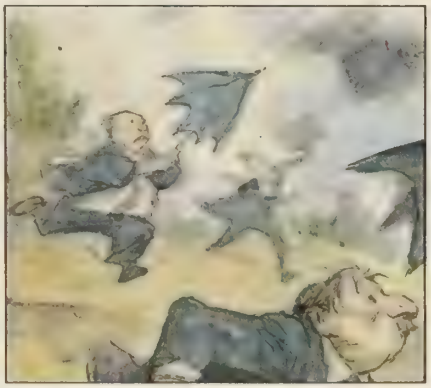

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to the popular
Ballantine's Finest
is its artful blend
single malt wh
Others proclai
virtues of water,
heather, traces of

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Side Lines

Prophet of paranoia

As FORBES writers have said repeatedly, litigation is out of han in the U.S. A handful of victims and their attorneys win fantas tic sums in the courts, while consumers and industry foot th bill. We are the most over-lawyered, over-insured society o earth. Then there's the deadly drag on innovation resulting from the legal risks of bringing out new products. None of the nations that compete with us bears anything like this burden.

That's why we devote our cover to Ralph Nader. Not satisfied with identifying abuses by corporations, he has used his powerful pulpit to cater to a pathological distrust of business, a distrust that has infected judges and juries as well as the media and the general public. His only apparent ideology is paranoia.

"Ralph Nader, Inc." was reported and written by Peter Brimelow and Leslie Spencer, the team that produced our prize-winning "The plain tiff attorneys' great honey rush" *(Oct. 16, 1989)*. They wer assisted this time by reporter Jody Brennan.

Even as he demands greater accountability from business Nader and his associates flout laws governing disclosure fo nonprofit organizations. "Information is the currency of democ racy," Nader wrote, yet he and many of his organizations wer only minimally responsive to our requests for data.

On the corporate front . . .

FORBES maintains its dedication to the brief, judgmental analy sis of corporate strategies and the people who implement them This issue carries a full complement. Marcia Berss describe FMC Corp.'s highly successful internal restructuring (page 95 Subrata Chakravarty tells how Melville Corp. makes big mone in retailing by being defiantly untrendy (page 150). Gretche Morgenson examines Apple Computer's business strategy an asks whether it will work as well in the 1990s as in the 1980 (page 196). Toni Mack explains why Oryx Energy Co. is doing s much better as an independent than it did as part of giant Su Oil (page 76). Alyssa Lappen recounts recent happenings a Pittsburgh's PPG Industries (page 101). Nor have we neglecte smaller companies. In the Up & Comers section we cover Imag Entertainment and Dover Publications.

Siberia says no to Castro

Russian economist Vladimir Kvint visited Siberian coal mine some years ago. He and his associates were questioned by coa miners annoyed that their government was lavishing money o foreign adventures when its own people lacked essentials "Who needs that hairy fellow, Fidel?" was the way one mine put it. Now that the authorities in Russia are starting to liste to ordinary folk, we'd say Fidel Castro's days are numbered.

Who would have thought that a Soviet economist would be contributor to The Capitalist Tool? Kvint's "Eastern Siberi could become another Saudi Arabia" begins on page 130.

James W. Michaels
Editor

If We All Aged Half As Well, The World Would Be A Much More Civilized Place.

Some say the secret to the popularity of Ballantine's Finest Scotch is its artful blend of 42 single malt whiskies. Others proclaim the virtues of water, peat or heather, traces of which can be detected in every sip. But all discussions about Scotch must ultimately turn to the oak barrels in which it matures.

Newly distilled single malt Scotch enters the barrel naked, virtually clear, fiery in its potency, but somewhat lacking in manners. Over the years it acquires a golden hue, drawn from the wood itself. Air penetrates the porous surface, whispering hints of the outside world to the budding whisky inside. In turn, evaporation imparts a subtle sweetness to the surrounding air.

When the whisky emerges from its long metamorphosis, it has mellowed considerably. Tempered with soft Scottish water and merged into the Ballantine's Finest blend, each of the single malts confidently introduces itself to your glass, proud of its origin, asserting its flavor with the firm handshake of individual Scotch character.

Then a softer side to Ballantine's is revealed, a sentimental quality that blooms on the palate like a flower unveiling hidden color. The finish is gentle but firm, dignified and noble.

The true measure of civilization is simple qualities like these. Happily, they are available for the price of a bottle of Ballantine's Finest.

Please write. We welcome all correspondence.

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Follow-Through

Edited by Edward Giltenan

Bass buzzes off

Five months ago FORBES dug into a nasty court and public relations battle raging between a group headed by Texas billionaire Robert M. Bass and his target, Florida's lucrative *St. Petersburg Times.* Bass was agitating for corporate reforms that would sharply increase the value of his investment: In 1988 he had popped open the hermetic seal of closely held ownership in Times Publishing Co. by buying a minority stake for about $28 million from disgruntled heirs of Nelson Poynter, the paper's longtime owner.

After considering the harsh rhetoric from both sides, the article suggested that the debt-free *Times,* controlled by the paper's executives through a tax-exempt foundation set up by the late Poynter, might find some way to pay Bass to buzz off—without having to call it greenmail. Sure enough, in mid-August the *Times* and the Bass group announced a "recapitalization" under which Bass will be bought out over three years. The price wasn't officially disclosed, but sources said about $75 million, mostly up front. Figuring in the present value of future payments and subtracting aftertax debt service, expenses and another hefty cut due the heirs, Bass appears to be reaping an annual compounded return of 50% on his out-of-pocket investment. He done good fishing in Florida waters.—**William P. Barrett**

Bogus Sales, Inc.

The 1988 bankruptcy of Coated Sales, Inc. was mortifying to FORBES, which had given the New Jersey-based specialty textile firm a favorable review just the year before. And it was excruciating to investors, who saw $160 million of market value evaporate.

At least we got the story right the second time around. A December 1988 article detailed the systematic fraud perpetrated by top officials of Coated Sales. For four years they concocted bogus accounts receivable—bills for sales that had never been made. Phony invoices were often marked "Bill and hold. Do not call." Coated Sales' revenues, profits and assets were all massively overstated.

Last month former chief financial officer Bruce Bloom pleaded guilty to participating in "a fraudulent scheme to inflate the company's accounts receivable by creating false invoices." He admitted that the ersatz receivables were even used as security for a $52 million bank loan.

Bloom faces up to ten years in prison and a $250,000 fine. But he may b able to cut a better deal by helpin prosecutors investigate Coated Sale ex-chief executive, Michael Wei stein. Bloom claims Weinstein was i on the fraud, a charge Weinstein lawyer says is false. Weinstein, wh has not been indicted, was last spo ted by FORBES living it up at his ma sion in Boca Raton, Fla., after pocke ing $10 million from the sale of h Coated Sales stock long before publ investors had any clue the compan would collapse.—**Dana Wechsler Linde**

Andy Freeberg

Coated Sales' Michael Weinstein
"Bill and hold. Do not call."

Gas pains

Harken Energy Corp. issued a nast earnings report soon after ou generally upbeat story on the comp ny in the last issue of FORBES. Th stock plunged, but then quickly r bounded. What, aside from the gene al market downdraft, is going on?

Charles Thatch

Harken Energy's Mikel Faulkner
Bahrain had better come through.

The second-quarter loss ($23 mil lion, versus a $3.6 million profit i 1989's June quarter) arose primaril from losses and special charges i Harken's gasoline retailing opera tions. The gasoline unit badly need its own refinery, but heavily indebte Harken would likely have to pay wit equity. Unless a refinery can be foun and financed, more losses are likely— especially since Saddam Hussein' Middle East aggression has increase wholesale gas prices more sharpl than retail prices.

What of the promising exploratio rights awarded Harken by the Persia Gulf nation of Bahrain? If the compa ny finds oil, great. But other well offshore of Bahrain have been dry.

Harken's natural gas pipelines i Texas and Louisiana should do fairl well, but for now those prospects ar overshadowed by gasoline losses an high interest costs.—**Toni Mack**

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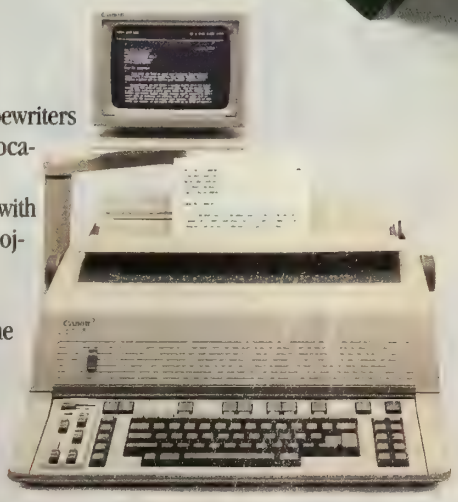

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THE BEST-KNOWN, UNKNOW

In the very near future, when you fly, you'll be under the watchful eye of Westinghouse's newest Airport Surveillance Radar, the ASR-9. It's being installed at every major airport in the United States. ASR-9 will give air traffic controllers something they've never had before: the ability to track both weather and aircraft, together, on the same screen at the same time.

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Edited by Eric Schmuckler

Ponzi in Denver?

You've probably read about Hedged-Securities Associates, a limited partnership based in Englewood, Colo. that announced to its clients in August that it had lost around $100 million of their money. Along with Weyerhaeuser Co.'s pension fund, several supposedly "smart money" types in Denver are said to be among those burned by Hedged, including rubber baron Charles Gates and J.W. Ringsby, a trucking magnate who used to own the Denver Rockets basketball team. A few former Denver Broncos football players also sank money in the deal.

The stated reason for the vanished $100 million, said general partner James Donahue in a videotaped message to his investors, was a poorly timed bet on United Airlines call options. One rumor in Denver, though, is that this was not simply bad luck and poor investing strategy, but may have involved elements of a Ponzi scheme in which old investors were paid in part with new investors' money. While they're at it, one source suggests, investigators might also want to look at another of Donahue's deals, an outfit that runs a bunch of windmills in California. The company, Aeroturbine Energy Corp., filed to raise up to $2.5 million in private placements in 1986. No problems have been reported at Aeroturbine.

Donahue's lawyer, Robert Dill, denies that his client was running a Ponzi scheme, dismissing that as the talk of disgruntled investors. Government investigations have just begun.

Islands of brass

International investment swindles are the biggest growth area in financial fraud, with investors losing $1.1 billion over the last two years. This has meant good business for the tiny Pacific island-states of Nauru, Tonga and Vanuatu, which are enjoying a boom in "brassplate banking," the kinds of shadowy banks run out of a briefcase and post office box. According to a report by the North American Securities Administrators Association, these islands are a haven for the rawest kind of con artists.

The standard scam is to offer certificates of deposit, with returns of 30% and up, or some kind of commodities arbitrage offering an outlandish 80%

Illustrations by Keith Bendis

or more. When it comes time to pay out, of course, the promoter and the cash are long gone. Wayne Klein, securities chief for the state of Idaho, tells of a chiropractor who invested $1.2 million in a supposedly risk-free deal promising returns of 1,300%.

The local island governments apparently know what sort of thievery they're facilitating. Some bank charters allow only international, not domestic, business. In other words, operators can fleece the foreigners but must leave the locals alone.

Sayonara

More bad news for real estate. Having already pulled in their horns as aggressive buyers, some Japanese investors are now thinking about cashing in a few chips. A few Japanese real estate companies have begun looking for financial partners for their U.S. properties. Others are borrowing against their equity here and using the funds to buy property elsewhere, notably Europe.

A few items on the market: Mitsui Fudosan is seeking investors for its new office tower at 461 Fifth Avenue in midtown Manhattan. And Shuwa Investment Corp. is said to be entertaining offers for its interest in the Mellon Financial Center on Manhattan's Madison Avenue. But Shuwa denies it.

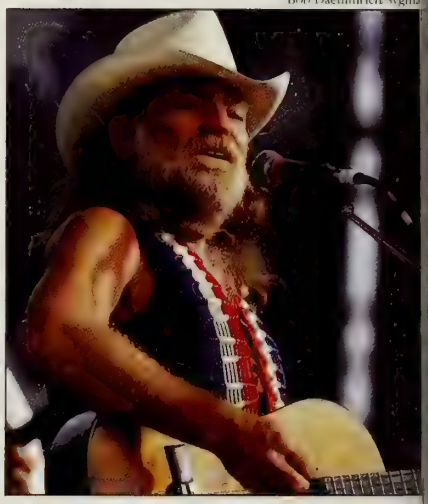
Why the disenchantment? Lack of performance in the U.S. real estate market combined with higher interest rates in Japan and the 35% drop in the Tokyo stock market since January. "We're seeing more and more Japanese who want to reduce their exposure in the U.S.," says Raymond Mikulich, managing director of Shearson Lehman Brothers' real estate investment banking group.—**Ellen Paris**

The tax shelter blues

Poor old Willie Nelson. The country music singer and social activist has lost several million dollars in a couple of tax shelters. One was First Western Government Securities, which did exotic trades in GNMAs and the like. The U.S. Tax Court disallowed all First Western deductions because it was such a blatant tax avoidance scheme. The other big loser was a cattle feeding tax shelter; the feed deductions were chucked out, and Nelson lost money on the livestock as well.

Angry and upset, Nelson wanted to sue somebody. He and his manager Mark Rothbaum, have decided to go after the accounting firm of Price Waterhouse. In his suit, filed last month in a Dallas federal court, Nelson charges that PW specifically recommended the shelters to him. He's asking for $15 million in actual damages and $50 million in punitive damages. He has also asked the court to treat his case under the RICO statutes, hoping the judge will somehow confuse Price Waterhouse with the Mafia. (PW declines comment, except to say that

Bob Daemmrich Sygma



Singer and hapless investor Willie Nelson
Singing a song of bad tax shelters.

the allegations are "unfounded.")

On top of the $65 million, Nelson seeks damages for the "ridicule and scorn arising out of [his] large tax deficiencies." Apparently no one told him investors must think for themselves.

If you can't drill, sue

A peculiar little public company named Coastal Caribbean Oils & Minerals hopes to strike pay dirt with a lawsuit against the state of Florida. Its Coastal Petroleum unit sued in July, saying the state's ban on offshore

drilling had rendered its oil, gas and mineral leases worthless.

Those leases, covering most of Florida's Gulf Coast as well as Lake Okeechobee inland, are Coastal's only assets. The leases were acquired in the 1940s by oilman William F. Buckley, father of the noted political pundit. A Buckley family trust maintains a small royalty interest in any Coastal oil production and, possibly, proceeds from the lawsuit as well.

Coastal trades on the Boston Stock Exchange, with 33 million shares outstanding and about 20,000 holders. It has never booked any sales, racking up an accumulated deficit of $18 million over the years. Recent price: 19 cents. That's a long way down from a high of 10⅝ reached in 1980, when Coastal was pursuing another legal

gambit to collect on its leases. The company spent over a decade suing Mobil Oil and six others for mining phosphate on Coastal's turf. Not only did Coastal fail to win any damages after spending around $7 million on legal fees, but it was ordered to pay Mobil $2.1 million for legal costs. Coastal is appealing that judgment.

Coastal's trump card in the Florida suit is an estimate by the state itself that the leased areas contain upwards of 60 million barrels of oil. The drilling ban makes this lawsuit "the last stand on our leases," says Coastal Petroleum President Phillip Ware.

Restructuring tool?

The Soldiers' and Sailors' Civil Relief Act of 1940, still on the books, caps interest rates paid by servicemen and women at 6%. Banks must give this rate upon request to anyone called into active duty, including reservists, who can prove financial hardship. It applies to personal debt such as mortgages, student loans, credit card bills and margin accounts on stocks. The American Bankers Association says that its members are complying during the current Gulf crisis, as they have in past wars and call-ups.

One can only wonder if Donald Trump and other highly leveraged players have considered enlistment.

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Readers Say

Knee jerk

SIR: Donald Petersen advocates the promotion of technical people ("We need manufacturing people at the top," *Aug. 20*). During the Seventies, marketing people were thrust into the corner office. In the Eighties, M.B.A.s were all the rage. In this decade, couldn't the promotion of engineers and the like be viewed as a knee-jerk reaction?

—Neil Schier
Edison, N.J.

Dollars away

SIR: Re Fact and Comment *(Aug. 6)*. Yes, we can draw some comfort from the fact that the percentage of debt held by foreign investors remained fairly constant in the years you cite. Nevertheless, the repayment of debt to foreigners reduces income, which, in turn, reduces our purchasing power and our standard of living.

—Louis A. Osti
East Quogue, N.Y.

No experience necessary

SIR: Re "Have I got a stock for you!" *(Aug. 20)*. Many brokers at Stuart-James start with the naive notion that they are helping a free-market economy by underwriting and selling inexpensive stocks of undercapitalized companies. However, they soon learn. Once, when I was a Stuart-James broker and asked to help with new hires, I was reprimanded for turning away a young man without a high school education.

—Ron Muñoz
Tulsa, Okla.

Misguided

SIR: Your article "The accountants versus the dealmakers" *(Aug. 20)* perpetuates the myth within corporate America that the ". . . annual hit to earnings [from the amortization of goodwill] affects the stock market's valuation of the company." Goodwill, and the amortization thereof, has absolutely zero effect on what is widely accepted as the primary determinant of stock values—cash flow. Surely our sophisticated financial community is savvy enough to understand this accounting issue.

The shareholders of Dow Chemica would probably have been better off management had spared the compan this shallow financial engineering.

—Shaun Seale
Vice President
Taylor Consulting Group, Inc.
Atlanta, Ga.

SIR: If U.S. business people pay mo attention to how their earnings state ments look rather than to serving cus tomers or improving operations, the it's no wonder U.S. businesses ar having trouble competing with fo eign companies.

—Robert B. Ryan
San Francisco, Calif.

One rich acrobat

SIR: It was interesting to note that i the "Ten years ago" section of Flash backs *(July 23)* the $3 million price o Picasso's "Acrobat Seated With Arm Crossed" seemed "unreal." Yet ther it sits in the same issue, on billionair Kanichiro Ishibashi's wall, worth a least five times as much.

—Harry Thompson Jackson
Penn Valley, Pa.

Toshi Matsumoto/Sygma

Kanichiro Ishibashi

Higher rank

SIR: The description of Sir John Davis role in the fortunes of the Rank Or ganisation ("Rank returns to its roots," *Aug. 6*) is unfair. He founded the Xerox association and had the faith to invest huge sums in it.

—Gerald E.A. Perutz
Chairman
Nimlok Co.
Niles, Ill.

Baby rumor

SIR: Re Sidelines, I think if you check sources on Baby Ruth vs. Babe Ruth *(Aug. 20)* you will find that the candy bar came on the market in the late Twenties or early Thirties as Babe Ruth and only became Baby Ruth when Babe Ruth's attorneys threatened suit for using the name without the permission of the Babe.
—Arthur W. Farrell
Englewood, Fla.

The Baby Ruth candy bar was introduced in 1920 before Babe Ruth was a big star, but you have the makings of a good myth.—ED.

Going mobile

SIR: While you did mention projections for toll road usage were made in an excellent Houston economy *(Informer, Aug. 6)*, you did not mention that the growth of the 1970s and 1980s had Houston hamstrung as one of the worst traffic-congested cities in the country. Now I may have to subsidize toll roads through local taxes, but at least Houston is a mobile city.
—Phillip V. Ladin
Houston, Tex.

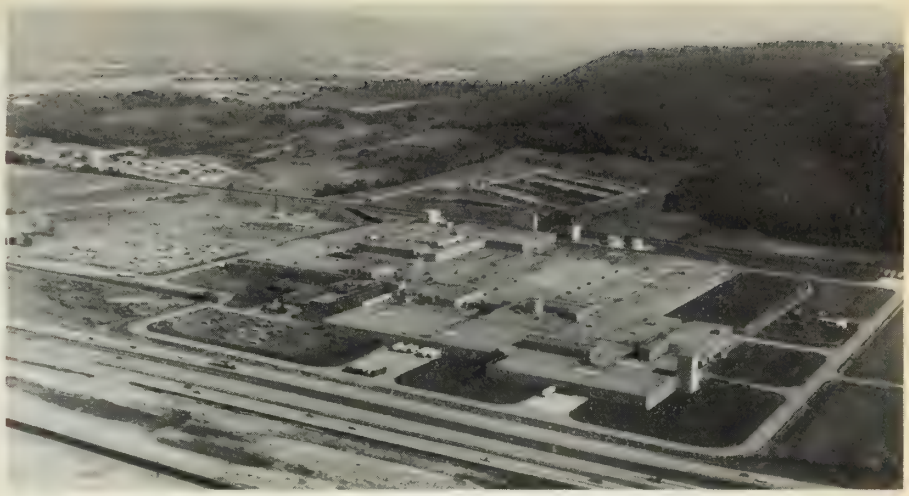
Get a horse

SIR: In the photo accompanying your article "Tour de fun" *(June 25)* you show bikers scattered all over a twisting narrow road as well as riding abreast. Any good group leader would tell you: single file, stay to the right and don't bunch up.
—J.W. Brockhouse
Paso Robles, Calif.

Serving a need

SIR: Your article "By invitation only" *(July 9)* implies that some companies have started mutual funds for profit—at the expense of their employees. Bell Atlantic's only motive in offering mutual funds to employees, retirees and their families is to provide a valuable service, which they said they wanted.

Our funds have to be a good value for employees. By focusing exclusively on expense ratios and ignoring other elements of expense, you may have led readers to other conclusions.
—E.P. Rennie
President
Bell Atlantic Mutual Funds
Philadelphia, Pa.



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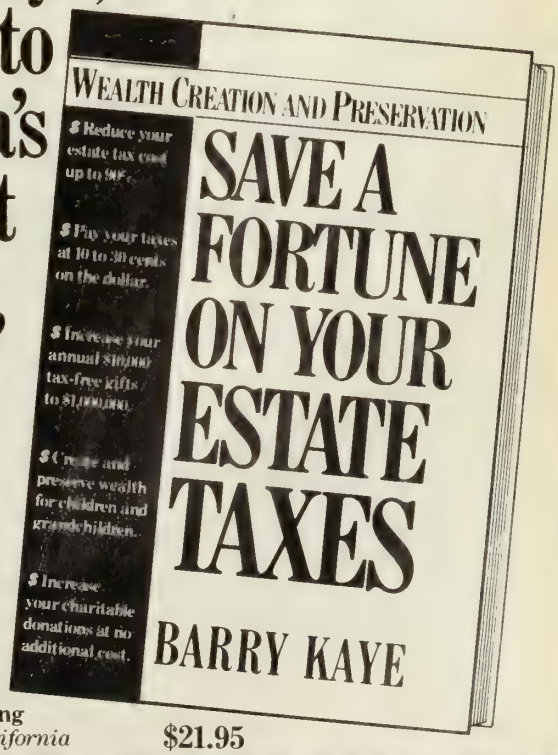

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Fact and Comment

By Malcolm S. Forbes Jr., Editor-in-Chief

WHY THE WOBBLY DOLLAR?

Primarily because of the possibility of the U.S.' going to war in the Middle East. Wars are inflationary, which is bad or stocks and dollars. The oil price explosions of 1973 and 1979 did not involve U.S. warfare.

The bashed buck is greatly undervalued against the currencies of Britain, Canada and Australia (because of those countries' strong energy positions) and against the deutsche mark (since the Bundesbank has been too tight on credit because of unfounded fears about reunification inflation).

The Iraq crisis will pass. When it does, the dollar will swiftly recover, particularly if we also pass a capital gains tax cut and publicly forswear kicking down the greenback for trade purposes.

REIGN OF TERROR

There's a credit crunch in this country, and it is not entirely the fault of the Federal Reserve's tight money policies. Much of this shortage has been engineered by federal bank regulators, particularly the Comptroller of the Currency Robert L. Clarke, whose office oversees the U.S.' 4,600 national banks.

Late last year, regulators tightened up their bank examinations. After the looseness of the 1980s, this move in principle was wholesome. But Comptroller Clarke has gone too far, too fast. Loans that should pass muster, don't. Banks are terrified, and borrowers are feeling the squeeze.

Comptroller Clarke

We're not just talking about real estate lending. Bread and butter for many banks are loans to finance buyouts of businesses, what regulators now label "highly leveraged transactions." These are not just the multibillion-dollar deals like RJR Nabisco, but the thousands of company sales or division divestitures that take place every year. The comptroller has effectively kiboshed much of this business through frowns and new disclosure regulations.

Examiners have enormous discretionary powers. More than one bank has told us that they were specifically threatened by examiners not to complain about their judgments. Regulators have been arbitrary, treating similar classes of loans differently, depending on a bank's size and location.

Clarke and his minions have a not-so-hidden agenda: They want the banking industry to shrink. This country doesn't need 14,000 banks, but the market will bring about these consolidations. It is not the job of the comptroller to do it artificially and arbitrarily. But, after having been burned on S&Ls, Congress has been loath to intervene.

Who will rein in these regulatory Robespierres?

SOON TO COME: CAPITALIST CUBA

When Fidel Castro falls, there's a group of Cuban-Americans ready with programs and sound advice to help set the island on the road to democracy and free enterprise. These people are not well-intentioned amateurs but leaders of the flourishing Cuban-American community and of the premier anti-Castro organization in this country: the Cuban American National Foundation, headed by the dynamic Jorge Mas Canosa, a very successful Florida businessman.

The foundation has worked hard over the years making sure the U.S. did not back off on its opposition to Castro. It was the foundation's intense lobbying that brought about the creation of Radio Marti, a Radio Free Europe-type of

station for Cuba, and also TV Marti. Its efforts will soon pay off: In not too many months the Soviet Union will likely cut Castro off from his $5 billion annual subsidy, which is no longer seen in the Kremlin as a worthwhile investment.

Peter Escobedo

MSF Jr. and Jorge Mas Canosa

Jorge Mas and some of his colleagues dropped by the other day to discuss the future of Cuba. These men have no intention of leaving their country's post-Castro future to chance. They are drafting a constitution and an array of economic programs. Because of the extraordinary economic success of Cuban exiles in this country, the group should have the clout to prevent Cuba from going the way of Romania. "No other communist country has [such a high percentage] of its population living in the United States," Mas points out. They have access to considerable capital as well as possessing the skills Cuba will soon need.

The Cuban American National Foundation looks laissez-faire Hong Kong, one of the greater economic su cess stories of the century, as model. "We would rather ha free trade with the U.S. than b lions in economic aid," Mas sa The foundation is working wi the consulting firm of Arth Laffer (one of the architects the Reagan tax cuts) on a flat come tax system, among oth measures. (In Hong Kong the ra is a mere 15%.) Mas recognizes the perils of following t destructive advice of the International Monetary Fund

With the guidance of men like Mas, Cuba cou quickly become a model for the rest of Latin Ameri an area which will be the surprise economic perform of the Nineties.

POLAND ÜBER ALLES

Half a century ago Nazi Germany invaded Poland, ostensibly because of the need for "lebensraum," or living space, for Germany's burgeoning population. By the 100th anniversary of World War II, if present trends continue, it will be Poland that will need the living space. Today Germany has the lowest birth rate Europe; Poland, the highest. Fifty years from now Pol could walk into Germany without opposition, as mo Germans by then will be in nursing homes and will too feeble to fight.

DEMOCRATIC UNIFORMITY

A growing number of schools are enacting dress codes or even requiring uniforms. The trend is healthy.

Uniforms are democratic. No one need feel any the less because he or she can't afford the latest in shoes, shirts, jackets, jewelry or whatever. They give students an esprit and help improve morale. Kids can concentrate more on their studies than on what's fashionable—at least during school hours. Uniforms help establish a sense of dis pline, without which there is no education.

For inner-city schools, there's an added bonus, a vit one: less crime. There have been a growing number incidents of students' committing violence against oth students, stealing expensive jackets or fancy sneake Dress codes or uniforms quickly smother such violence

RESTAURANTS—GO, [illegible], STOP

These reviews are the distilled wisdom of brothers Bob and Kip and FORBES chef Christopher Long. Yours truly's input is still minimal, as I too often prefer to munch Macs and other low-yield junk.

Chanterelle—2 Harrison St. (Tel: 966-6960). Top of the line in all respects. From the oysters in aspic and caviar to the salmon paté mille feuilles, the first courses are all delicious. And so are the main ones. Soft-shell crabs in lime butter were sautéed to delicate, crunchy, piquant perfection. The place is full, deservedly so.

Hatsuhana—17 East 48th St. (Tel: 355-3345). Nothing exceptional about this pleasant Japanese eatery despite its excellent reputation.

Sign of the Dove—1110 Third Ave., at 65th St. (Tel: 861-8080). Beautiful decor, disappointing food. Come here only if you have plenty of free time. If you go, stick to the bread, which is sent over from the bakery next door.

Le Steak—1089 Second Ave., between 57th and 58 streets (Tel: 421-9072). Great salad dressing; great ste sauce; still the best french fries in town.

K-Paul's—622 Broadway (Tel: 460-9633). Much sil ness goes on in this cajun domain, such as sticking colore stars to your cheek to denote if you've cleaned your pla or eaten all your vegetables. Customers parade around th restaurant with staff accompanied by a song. But the fu isn't free—the food is overpriced and almost everything o the menu has garlic in it.

San Domenico—240 Central Park South (Tel: 26 5959). This classical Italian restaurant still lives up to i FORBES Four Star rating. As Chef Long put it, "Eve course is incredible."

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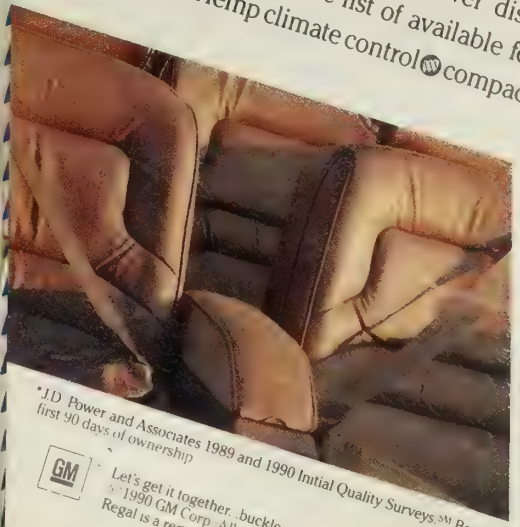

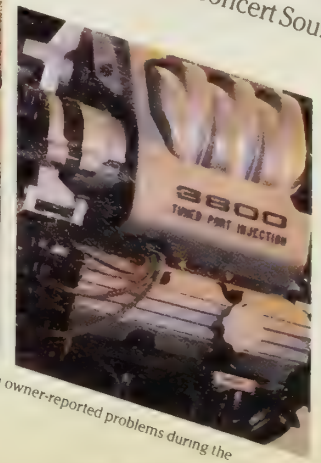

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Other Comments

How Quickly Times Change

The glamour is now in trading, not making. This is not a stable situation in an economic superpower, and sooner or later Newton's second law comes back from lunch.

—Adam Smith, *The Roaring '80s*

Don't Touch

If you tell people there are a billion stars in the universe, they'll believe you. But if you tell them a bench has just been painted, they have to touch it to be sure.

—*Overheard at the Square Dance,* by Gordon Goss & Valerie Thornton

Falling Star

Bogota, Colombia—For many Latin American leftists, Fidel Castro's historical appeal has been undermined by a spreading perception that Cuba's showcase social advances were subsidized by the Soviet Union. . . . Others attribute their disillusionment to Castro's disregard for human rights. "Many of us believed in the revolution," said Plinio Apuleyo Mendoza, a Colombian novelist. "We thought Fidel did not know what was going on. Now we understand that socialism as a system is a failure."

In contrast to the apathy or open hostility to Castro here, the Cuban leader received a warm welcome last March when he visited Brazil. *Veja Magazine,* Brazil's largest selling news weekly, recalled a 1980 visit by Frank Sinatra that drew 100,000 fans to a Rio soccer stadium: "The Cuban dictator proved that the Sinatra Law—by which any falling star has guaranteed popularity in Brazil—is still in effect."

—James Brooke, *New York Times*

Shades of Trump

One breath of scandal, and not only would the Giscard scheme collapse but *his very career* would be finished! And what would he do then? *I'm already going broke on a million dollars a year!*

—*The Bonfire of the Vanities,* by Tom Wolfe

More "How Times Change"

The United States [can not] escape the censure of history. Absorbed in their own affairs and all the abounding interest, activities, and accidents of a free community, they simply gaped at the vast changes which were taking place in Europe, and imagined they were no concern of theirs. . . . If the influence of the United States had been exerted, it might have galvanised the French and British politicians into action. The League of Nations, battered though it had been, was still an august instrument which would have invested any challenge to the new Hitler war-menace with the sanctions of international law. Under the strain the Americans merely shrugged their shoulders, so that in a few years they had to pour out the blood and treasures of the New World to save themselves from mortal danger.

—Winston Churchill

* * *

Brussels, Aug., 10, 1990—"Only the Americans can mount a swift military response to a challenge of this sort outside the NATO area," *The Independent,* a British newspaper, said in an editorial. "Europe simply has to decide whether to tag along, although its interests are just as threatened as those of the United States. Its defense remains in American hands." An American official said, "The irony is that we keep telling the Europeans that we don't want to act alone. We'd be happy if they did more."

—Alan Riding, *New York Times*

Keep the bean counters on tap, never on top.

—Al Neuharth, *Confessions of an S.O.B.*

Such People

The man next door cleaned his gutters yesterday. Downspouts too. He's done it before. I saw him last year. Amazing. I live in awe of people who get those jobs done. There is order under their sinks, in their closets, and in their car trunks. Not only do their flashlights work, they actually *know* where the flashlights *are!* Socks—right there in the drawer, folded into matching pairs. Yes! And as they prepare to walk out the door into a new day, they know exactly where their car keys are. There *are* such people.

—*All I Really Need to Know I Learned in Kindergarten,* by Robert Fulghum

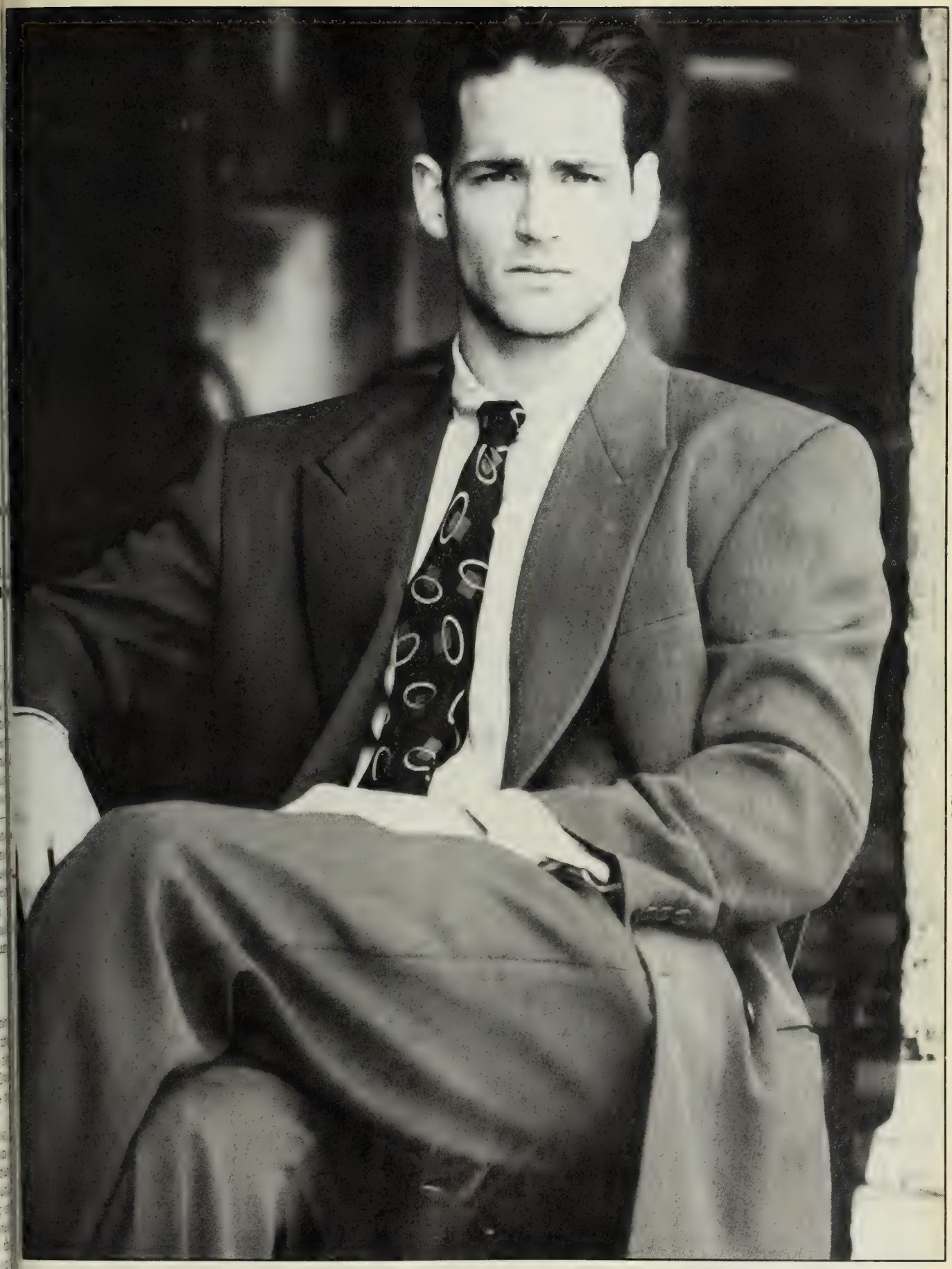
No More Labor Days

Clarence Darrow was being interviewed for a magazine article on the reasons given by prominent men for their success. "Most of the men I've spoken to attribute their success to hard work," said the interviewer.

"I guess that applies to me, too," said Darrow. "I was brought up on a farm. One very hot day I was distributing and packing down the hay which a stacker was constantly dumping on top of me. By noon I was completely exhausted. That afternoon I left the farm, never to return, and I haven't done a day of hard work since."

—*The Little, Brown Book of Anecdotes,* edited by Clifton Fadiman

PUNCH



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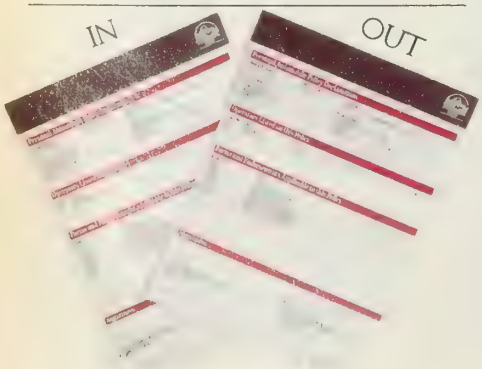

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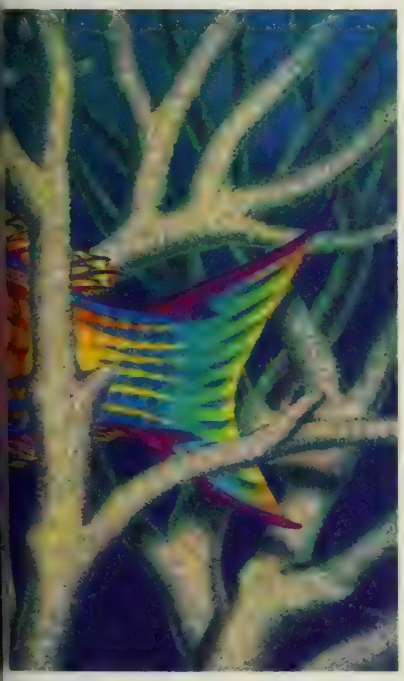

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Commentary
on Events at Home and Abroad

By Caspar W. Weinberger, Publisher

THE WAR POWERS RESOLUTION—AN INVITATION TO DISASTER

Few people realize that, when President Bush sent our troops to Saudi Arabia the first week in August, the War Powers Resolution permits Congress to force the return of the troops by the first week of October or, at the latest, November, no matter what the military situation is then.

This resolution was enacted in 1973 over President Nixon's veto, and every President since has denounced it as an unconstitutional attempt by Congress to exercise Executive Branch powers. The law requires the President to notify Congress within 48 hours when the "imminent involvement [of the military] in hostilities is clearly indicated."

Langevin/Sygma

In Saudi Arabia: *forced home in 60 days?*

When President Bush sent Congress the formal notice that he had dispatched troops to Saudi Arabia and the Persian Gulf area, he followed President Reagan's precedent in dealing with the problems caused by the War Powers Resolution. President Bush notified Congress but said he did not think an involvement in hostilities was imminent and that therefore the War Powers Resolution did not apply. But Congress may not agree.

In 1987 Congress was in full cry against President Reagan's decision to respond to Kuwait's request that we convoy its oil tankers through the Persian Gulf in the face of Iranian threats to sink the tankers. The President sent naval forces to the Gulf, telling Congress he had done so but that he did not believe hostilities to be imminent. If the President had not done this, the military deployment would have had to end in 60 days (90 if the President certifies he needs more time for a safe disengagement).

Perhaps the most onerous requirement of the law is that any troop deployments ordered by the President must end in the given time *unless* both houses of Congress act to authorize the troop activity. Thus, even if Congress is in recess or only one house approves, the troops must come home no matter how threatened they may be.

This is the kind of law that could be passed only by people totally ignorant of the realities of military action. Breaking off military operations on a previously announced timetable is an invitation for disaster. No one has any idea what the situation will be in 30 or 90 days. But if an enemy knows that, in the first week of November, we must disengage and start home (all military forces are particularly vulnerable while disengaging), we will simply be telling the enemy when and how to attack our troops.

In the 1987 incident, the Senate became embroiled in a debate so ensnarled with parliamentary thickets over the question of whether to force withdrawal of our fleet that one Senator declared, "In the final analysis, I don't know what we are doing." The Senate was unable to decide anything, and our forces went on to win all our objectives in the Gulf, with the Iranians giving up in mid-1988.

If Congress this year should vote to force the disengagement of our forces in the Gulf, President Bush could veto that action, but of course the Congress could override.

So until the War Powers Resolution, weakened and derided as it is, is repealed or held unconstitutional, it remains a living hope for all our enemies that American forces, sent into action by the President, and even in combat, could be forced to disengage by a given day.

Unfortunately, the Resolution is highly regarded by those in Congress who feel that they and not the President should control our foreign policy. If this law forced a dangerous disengagement of our forces the first week in November, that would demonstrate the impotence of the American presidency as nothing else could—and all to the delight of our enemies and the dismay of our friends.

The framers of our Constitution wanted the President to be free to act, and to be accountable for his actions to the people—including their representatives in Congress. But accountability is not subservience. It should be plain that prompt and unambiguous action is impossible for a nation ruled by two governments: one in the White House and one on Capitol Hill. If we are to maintain a clear and considered defense of our interests abroad, it is imperative that we speak to allies and adversaries with a single voice.

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Edited by Howard Banks

TAXING TIMES FOR PENSION FUNDS

Rising pension costs will hit corporate profits

THE GOOD TIMES FOR THE U.S. private pension industry—around 234,000 defined benefits plans with $1.5 trillion in assets, covering close to 29 million individual employees—are coming to an end. Expect significant increases in pension costs to hit already sagging corporate profits starting in the fourth quarter.

It's quite a reversal. Thanks to tough rules introduced in 1974 and Wall Street's long 1980s boom, over 80% of all defined benefits pension plans—which guarantee the value of a participant's eventual benefits—were fully funded in 1989. In 1974 just 35% were. Nearly all of the largest funds hold assets in excess of 150% of the cost of fully vested benefits, the maximum allowed. Congress mandated the 150% limit to ease the loss of corporation tax revenue to the Treasury (which nevertheless will total over $47 billion in fiscal 1990).

The combined effect of the stock market boom and this funding limit also resulted in employers' cutting their contributions from a peak of $57 billion in 1982 to around $50 billion in 1989, according to Jack VanDerhei of the Employee Benefit Research Institute. Despite tough penalties, companies are still recapturing excess assets, and many have taken extended "contribution holidays."

Many plans will slide into underfunding

NOW THAT THE FINANCIAL MARKETS are dropping, many funds will join the 10% of major funds already below the legal benchmark of the 100% funded level. This will cause many employers to step up their contributions. The full cost can be 5% to 7% of payroll, says Jerry Carnegie of consultants Hewitt Associates. (Hourly paid workers' plans will be hardest hit because of a quirk in IRS rules that often keeps these funds close to or even under 100% funded.)

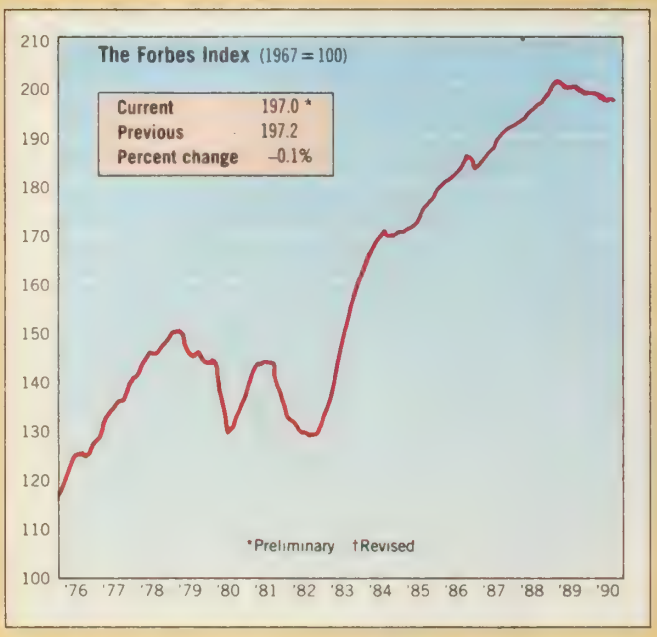
The Office of Management & Budget is also proposing that those companies whose pensions remain below the 100% funding level pay sufficient extra for government-guaranteed insurance to eliminate, over five years, the deficit (today around $1 billion) of the federal Pension Benefit Guaranty Corp.

Will Washington tax pension fund assets?

FOR THE FIRST TIME, 1989 saw a decline in the total number of defined benefits pension plans. Mostly it was smaller plans that died, some to be replaced by defined contribution plans, whose value varies with the market. Pension managers blame the high cost of operating within complex rules that are always changing (another 350 confusing pages recently emerged from the IRS). Now, to raise some money as part of the budget deal, Congress and the White House are considering taxing at least part of pension plan earnings.

The result would likely be an accelerated decline in the number of defined benefits schemes, which are the backbone of the U.S.' already feeble private savings rate. Congress and the White House talk a good game about encouraging savings, but look at what they do. Taxing U.S. pensions is about the shabbiest proposal to date.

The Forbes Index



July's economy, reflected in the chart at left, is weak; th future looks worse. The spurt in oil prices (to $31 a barre nearly double June's low of $16.60) largely escaped the Jul data collection and is going to hurt future price reports Consumer prices rose 0.4% in July, but lower energy price contributed to keeping this number down that month Also, lower oil prices helped the U.S. trade deficit fall to $ billion in June, the lowest monthly rate in seven years Over the last two months, retail sales increased 1.2% New housing starts are 18% below the year-ago level.

Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	10.0%
Auto sales year to date vs. 1989[1]	Ward's Automotive	–4.6%
Index of leading indicators June vs. May	Dept of Commerce	0.0%
Trade balance last 12 months ending June 1990	Dept of Commerce	–$101 bil
Producer price index July vs. 1989[2]	Dept of Labor	3.4%
GNP 2nd quarter vs. 1st—annualized growth	Dept of Commerce	1.2%
NBER Experimental Recession Probability Index[3]	Natl Bureau of Economic Research	5.0%

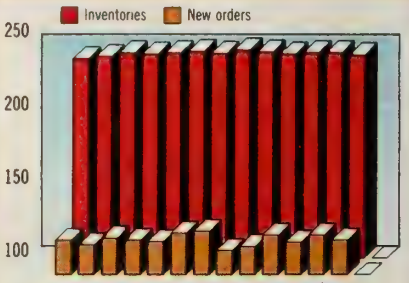
[1]U.S.- based manufacturers, excludes imports, as of 8/20/90. [2]Finished goods. [3]June 1990.

Index Components

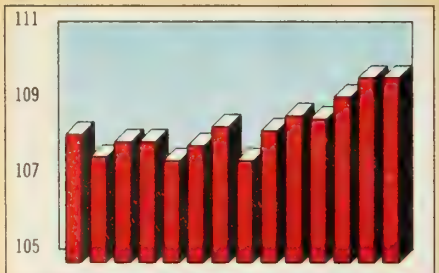
The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

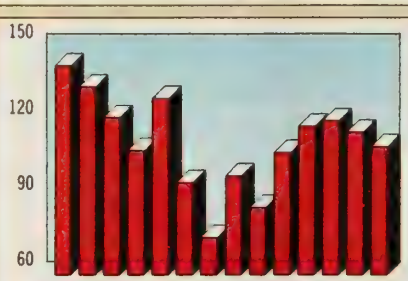
Consumer price indexes (1982-84 average = 100) all urban consumers, unadjusted (Dept. of Labor)



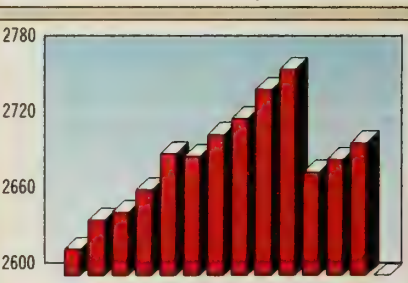
Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)



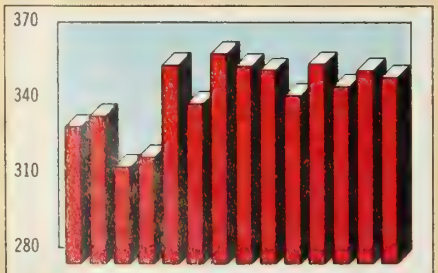
Industrial production index (1987 = 100) seasonally adjusted (Federal Reserve)



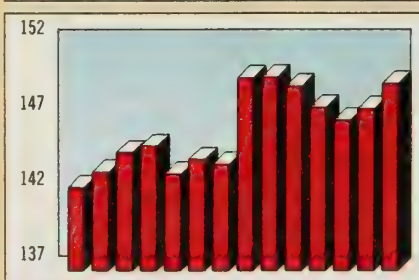
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



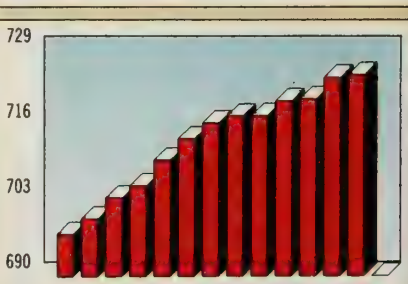
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



New unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)

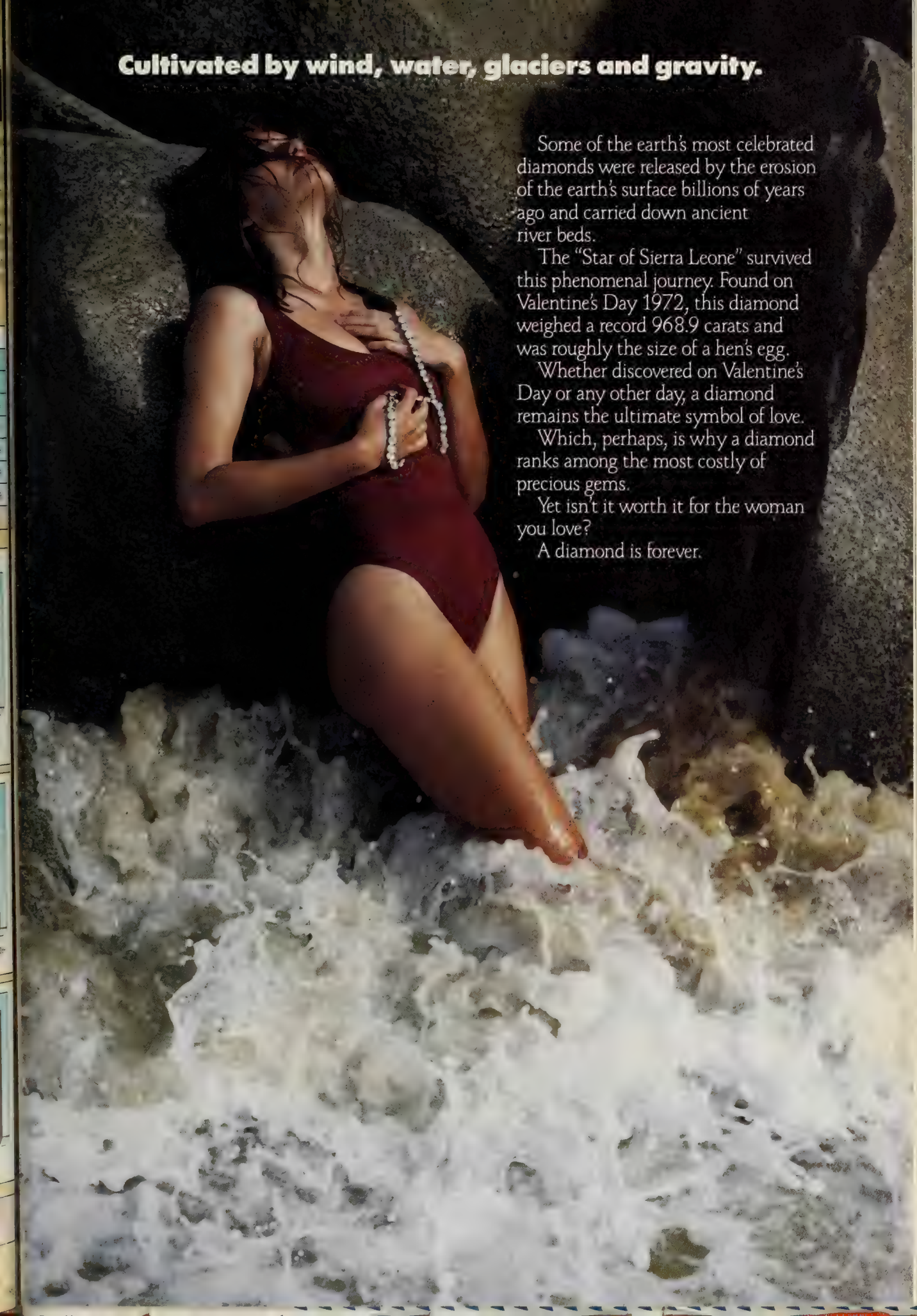


Retail sales ($billions) seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

J J A S O N D J F M A M J J
1989 1990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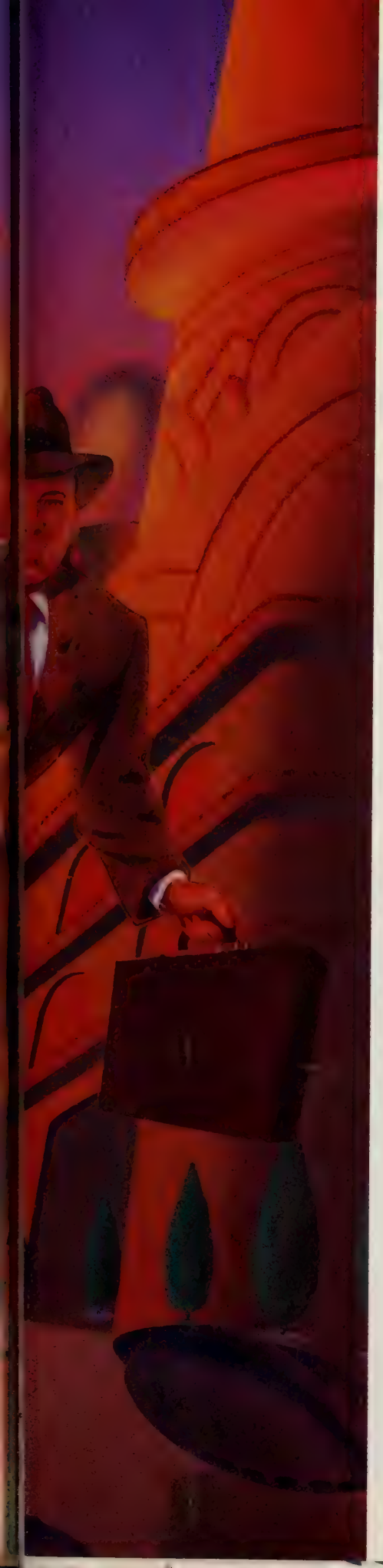
Which, perhaps, is why a diamond ranks among the most costly of precious gems.
Yet isn't it worth it for the woman you love?
A diamond is forever.

THE FUTURE: CAN WE REALLY GET THERE FROM HERE?



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The Past, Present, and Future of Network Computing.

Get ready for a big new wave of bank consolidations—and we mean big. Outfits like Chase Manhattan and Manufacturers Hanover will take or be taken.

Megamergers: a solution to the banking crisis?

By James R. Norman

LIKE THE STEADILY growing tension on the San Andreas Fault, pressure is mounting for a new wave of big bank mergers—friendly, not-so-friendly or failure-driven rescues, mergers on a scale previously unthinkable.

Far from discouraging these big mergers, the banking authorities will encourage them. They see a shrinkage in the number of commercial banks as one way to revive an ailing industry.

Commercial banking, to be sure, is better run, better regulated and better capitalized than the runaway 1980s savings and loan industry. With about $3.5 trillion in insured deposits, it's roughly triple the size of the S&Ls and much more important to our economy. But it suffers from the same underlying problems as the S&Ls: It's a high-cost producer, and much of its basic business of taking deposits and making loans has been made obsolete by new financial systems—from mon-

Peter de Seve

ey market funds to corporate commercial paper and AT&T credit cards.

The result: far too many banks with far too much overhead making far too little profit and showing little or no growth. To compensate, many have taken on much more risk than the deposit insurance system or the banks' own thin capital can afford.

The main remedy must be consolidation. That has already been slowly happening, with the number of independent commercial banks down to fewer than 10,000 from nearly 12,000 seven years ago. The top 50 banks have raised their share of assets modestly, to more than 65% from about 58% in the past decade. But the system is still fragmented: The biggest U.S. bank, Citibank, has barely 1% of all U.S. bank deposits.

While the U.S. has clung to its fragmented banking industry, foreign banks with much broader financial powers have stolen the show. Japanese banks now have 40% of world banking assets, up from 23% five years ago. Since 1978 the U.S. has slid from having 5 of the world's 25 largest banks to just 1—Citicorp, ranked number ten in assets. Citicorp is now the only U.S. bank with a truly global presence. That may not matter if all you want is a car loan. But do we really want to push U.S. multinational companies into the arms of foreign banks? Historically the U.S. has tried to limit the size and power of banks, while foreign nations have encouraged bigness in banking.

Why mergers? A handful of acquisitive banks have shown they have a gift for wringing big profits out of takeovers. They include Wells Fargo, Banc One and Security Pacific. Listen to Hugh L. McColl Jr., chief executive of NCNB Corp., which has made numerous big mergers, including the 1988 takeover of Texas giant First RepublicBank Corp. He says: "We've got all this unnecessary, costly duplication and redundancy. Too many branches, too many people, too many computers, too many directors."

Merging banks is a sure way to save money. Do big cities really need two or more competing banks in every neighborhood? Noninterest operating costs—mostly payroll and occupancy costs—typically eat up two-thirds or more of the margin between what a bank pays for its money and earns on its loans. So to cut 30% in noninterest expense at a poorly run bank—as Wells Fargo did with Crocker Bank—can double its profit.

The biggest savings are in same-market bank mergers. It would be hard for a western or regional bank to buy a New York money center bank and realize such savings—not to mention the poison pill to swallow on bad loans to developing countries. "I can't imagine why anyone would buy one of them," muses the merger boss at one acquisitive regional bank: "Who's got the capital? Who's got the management?" But logic is mounting for mergers among the big money center banks themselves—the top 20 or so insulated by the unwritten rule that they are "too big to fail." Still carrying wads of dubious Third World loans from the 1970s and now haunted by deteriorating real estate and leveraged buyout loan portfolios, some of these national flagships have watched their market value plunge by half in the past year, as investors have lost faith in future earnings and dividend streams. (For an analysis of bank stocks, see page 136. For a look at an alternative investment opportunity—bank deposit notes—see page 235.)

Merging two big New York banks like Chemical and Manufacturers Hanover, for instance, might more than double profits. "The only way out is consolidation. It is the low-risk way to create new earnings streams. Where else could you get $600 million of recurring profits?" ponders Richard J. Barrett, a managing director at Salomon Brothers. That, he says, would not only increase earnings but also make it easier to sell more shares and bonds to boost their capital.

On their own, the big banks have begun unprecedented cost-cutting. But the market's ho-hum response seems to say: too little, too late.

"I absolutely believe these mergers will happen," says the chief executive of one big New York bank, who says he's window-shopping. "The only question is when." Then look out. The economies from one of these big mergers will drive others to line up partners in what could be a fast game of musical chairs. "If two do something, the others are disadvantaged," notes Kendrick Wilson, a banking specialist at Lazard Frères & Co.

Among the most-rumored pairings: A linkup between Chase Manhattan Bank and either Manufacturers Hanover Corp. or Chemical Bank in New York. Any pairing there would likely prompt the odd man out to do a deal with the Bank of New York. On the West Coast, Security Pacific and Wells Fargo Bank have eyed First Interstate, which could also be courted by Citicorp when California's interstate banking barriers fall Jan. 1. A matchup could spur other defensive pairings there.

Of course, such merger talk has floated for several years and little has come of it. But now the attractions are more compelling.

Don't look for quick profits from bank mergers for investors. In your ordinary, nonbank merger, the acquiring company offers a premium over market value for the company it is acquiring. But this requires cash or borrowing power, which the big banks lack. They need to build capital, not dissipate it. So any bank mergers would have to be on a share-swap basis, probably at close to market prices. The mergers would thus have to be friendly. They would require agreement between two managements over jobs and titles. Not easy. "What CEO wants to jump off a bridge?" asks one New York banker.

A bigger barrier is fear about the quality of loan portfolios. "There is obvious flirtation, but that's where it stops. They're all wary of marrying someone who's diseased," says another investment banker. The result: "There's a lot of semaphore, but no ship-to-ship exchange" of offers.

That could change soon. One reason is that Washington is becoming more sympathetic to the urge to merge. In July Federal Reserve Chairman Alan Greenspan told Congress he favored easing many costly quirks in banking laws. Among them: the ban on branching across state lines, and an inability to offer broader services like underwriting and insurance; all these currently hamstring American banks versus their lower-cost foreign competitors. Greenspan also asked for powers to force mergers even before banks become insolvent. And in a shift unthinkable just five years ago, Treasury officials are now debating loosening the Bank Holding Company Act limits on ownership of banks by nonbank companies.

That could let big industrial companies with large credit operations—such as Ford, General Motors and General Electric—step in as consolidators. Not to mention raiders and restructuring artists. "Bankers are the only guys that can go to sleep and not worry about raiders," gripes L. William Seidman, chairman of the Federal Deposit Insurance Corp.: "It's the only industry where government has effectively insulated the managements from attack."

So far, the regulators have relied mainly on stiffer examinations and higher capital ratios to prod along consolidation. Bankers complain this federal fixation with capital is counterproductive. It has sharply reduced the number of banks that qualify as acquirers. This has clearly slowed the pace of bank mergers this year, despite removal of some interstate banking barriers. Call it gridlock. "The system cries out for rationalization, but it suffers from constipation," says analyst James McDermott Jr. of Keefe, Bruyette & Woods, Inc.

Black as things look, this could be the darkness before dawn. Amidst what looks like stalemate on the merger front and steadily worsening loan losses, a few hardy investors are buying bank stocks. Kohlberg Kravis Roberts has bought a 9.9% stake in First Interstate. Lazard's Corporate Partners has invested in First Bank System. Warburg Pincus holds convertible preferred in Mellon Bank, after helping finance a new "bad bank" for $1 billion in problem loans. The Tisch family has a paper loss on its stake in Bank of Boston *(see page 136)* but has kept buying. Their Loews Corp. may be buying Chase shares.

Ordinary shareholders may be sheeplike, but these big dealmakers are not. With so much of their own money at stake, they will certainly press managements either to boost earnings or to make mergers.

"A lot of banks are trading at going-out-of-business prices, but they're not in the problems everyone thinks," insists a Tisch source: "When they turn, they'll turn dramatically." What will make them turn? A break in the merger logjam, most probably. ■

When the Berlin Wall fell, so did a lot of Eastern bloc inhibitions. Suddenly, sex is a major German growth industry.

Lustful union

By Richard C. Morais

IT'S 4 A.M. on the Reeperbahn, the notorious strip in Hamburg's St. Pauli red light district. Men in pairs and packs cruise past sex shops called the Hot Corner and Eros Center. Ladies of the night, bedecked in leather belts and Day-Glo outfits, latch on to passersby. It looks like business as usual.

But wait. Suddenly, a bus stops. Squealing with excitement, some 60 East German men, women and children pour onto the pavement, prams and all. The group drove through the night to get here this early, but it's only the first bus of the day. From Friday to Sunday East Germans arrive by the thousands, intent upon experiencing the famous "strip of sin."

"We counted 220 buses in one day, and sometimes they fill the store till no one can move," says Uwe Jagla, joint owner of four sex shops. Says his shocked manager: "They even bring their children into the store. You have to stop them."

Finally released from 40 years of communist rule, East Germans are

Wolfgang Steche/Visum

East Germans are flocking to the Reeperbahn, to check out Hamburg's notorious "strip of sin." Meanwhile, West German erotica merchant Beate Uhse (left) makes big plans to expand across the border.

sampling all kinds of previously forbidden fruit—including political freedom, uninhibited travel and, now, uninhibited libidos—as they work to erase the indescribable monotony that was the norm of totalitarian life. Something similar happened in Spain in the 1970s, when the authoritarian Franco era ended and the news kiosks bloomed with all manner of sexually explicit magazines.

"Within days after the wall fell, in a 30-to-50-mile strip along the border, all our magazines had sold out," says Jürgen Klebe, editor of *St. Pauli Nachrichten,* a magazine that characterizes itself as "Germany's number one lust paper." The magazine received almost 7,000 Eastern bloc letters the month after the barbed wire was cut.

West Germany's media—even the respected publishing houses—have rushed to supply their new eastern countrymen with what they want. The *Berliner Morgenpost,* for example, just ran an article on erotic East-West encounters—70% of the East German men surveyed (but for some reason, only 33% of the women) enjoyed their private unions. The Burda publishing giant, FORBES' partner in the German business magazine *!Forbes von Burda,* has come out with a magazine called *Super Illu,* stuffed with articles like "Greater freedoms also in bed" and "Lexicon of erotica."

The 150,000-circulation *St. Pauli Nachrichten* is being distributed across the border by a ragtag army of salesmen. Particularly popular with East Germans are the features "Photograph your loved one" (readers send in shots of their darlings in the buff) and the "Fatties" corner (don't ask).

Even the local East German papers, formerly in the vanguard of socialist prudery, are getting into the act. Topless swimmers have been seen splashing across the front page of the *Thüringer Allgemeinen,* accompanied by awkward prose explaining the medical pros and cons of skinny dipping.

West Germany's biggest porn merchandisers, mostly middle-class family-run businesses, aren't wasting any time, either. Beate Uhse, head of Beate Uhse, A.G., struck with a speed that belies her 70 years when the wall fell. Her $70 million (revenues) company, based in Flensburg, has a chain of sex shops and blue-movie houses, as well as a mail-order business that was selling some 1,000 products—everything from naughty lingerie to marital aids. Within weeks she had test-marketed in East Germany with 100 packages, to see if money and products could move back and forth across the border without intervention from the East German secret police. They could.

In a matter of months she had 140,000 East German enquiries. So she hired 30 vans, printed 600,000

catalogs and practically gave them away for 5 East German marks (the equivalent of 80 cents at official rates) in a whirlwind tour of the country in June. Thousands of unabashed East Germans crowded around her vans, clamoring for catalogs. She expects sales this year to be up by 15%.

As soon as property laws have been clarified, Uhse says, she'll open 20 stores across the border, plus license her name to locals wanting to take the self-employment plunge. Somebody, apparently, has already beaten her to it. In Zwickau, the first East German sex shop has already opened, complete with yellow awnings.

The demand from the Eastern bloc came just in time for Europe's sex industry, which appears to be suffering from a bit of overcapacity and creeping old age. The media end of the West German sex business alone is estimated to be between $1.3 billion and $2 billion. Klebe, the "lust paper" editor, figures there are between 6,000 and 7,000 sex shops in West Germany alone, and characterizes the competition as "cutthroat." Uhse, berry-brown from a recent visit to a French nudist camp, agrees. "Too many idiots came into the market," she says. "Their pricing is all wrong. They are practically giving it away."

Meanwhile, back in Hamburg's St. Pauli district, the union of the two Germanys continues, but not always smoothly. The 2 a.m. beat cop says many East Germans order drinks but don't have enough money to pay.

A wooden gate across the Herbertstrasse—where painted women sit in windows and sip schnapps—clearly states that only men are allowed in the alley. But that doesn't seem to deter East German women who by the busload pour down the alley to gawk. It's terrible for business. The prostitutes are fighting back now, dousing the rude intruders with water tinged with coffee, so it looks like urine.

"The East Germans don't understand," says Klebe. "These are working women." ■

The Saddam Hussein crash, then the sigh-of-relief rally. There are no hard rules, but if history repeats the pattern of past war scares, look for the stock market to rise.

Remember the Maine!

By Thomas Jaffe

EVERYBODY was waiting for the sigh-of-relief rally, and finally it came. Over two days in late August the Dow Jones industrial average recovered 128 of the 416 points it lost after Saddam Hussein invaded Kuwait and raised the specter of a serious war. President Bush's decisive sending of troops and ships and the world's dilatory but near-unanimous approval of sanctions against Iraq had the effect of calming investors.

What next?

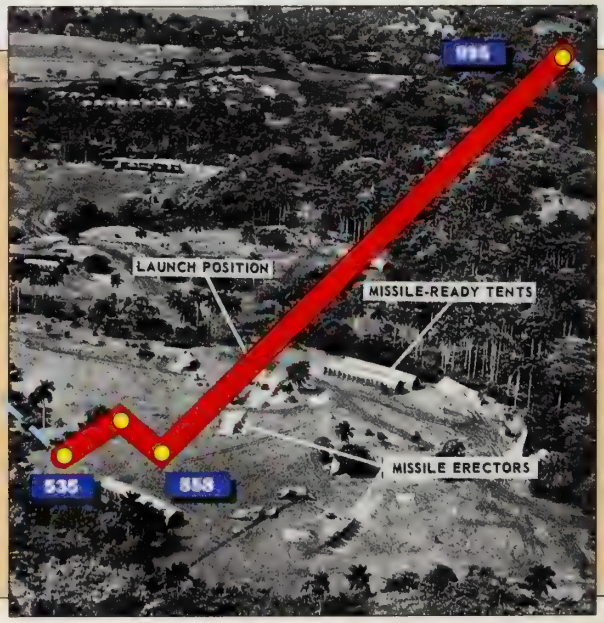
For some clues, FORBES examined stock market patterns after similar war crises:

When saboteurs blew up the U.S. battleship *Maine* in Havana harbor on Feb. 15, 1898, it appeared for a time they'd detonated the market as well. Between that date and Mar. 25 the Dow fell 16%, from 50 to 42. But, by the end of May, with the U.S. at war

Sputnik

UPI/Bettman

Cuban missile crisis



UPI/Bettman

Tet Offensive

with Spain, the market had rallied back above 50. Some 18 months later, in September 1899, the Dow peaked at 77, 83% over its post-*Maine* low.

This has been the general pattern in war crises: a fast crash and then a recovery. But not all the rallies are as quick in the making as that of the Spanish-American War. Take World War II. When, after months of the phony war, Germany finally attacked the Low Countries on May 10, 1940, the market slumped badly. By May 24, with the Allies in a rout and France doomed, the Dow had dropped from 144 to 113, and it continued drifting downward for two more years, to its low of 92—this, as the Japanese noose tightened around Bataan and Corregidor.

It wasn't until May and June of 1942, when U.S. victories at the battles of the Coral Sea and Midway stopped Japan's advance in the Pacific, that investors began to smell that the Axis goose was cooked. The market slowly started to turn, and its recovery continued straight through the end of the war—until May 1946, by which time the Dow stood at 212.

Although the launching of Sputnik may not, at first blush, appear to have been a military crisis, it carried a devastating implication that the Soviets might have gained a technological edge in the arms race. On Oct. 4, 1957, the day Sputnik went up, the Dow was at 461; by Oct. 22 it had dropped 9%, to 419. The market didn't return to pre-Sputnik levels until May 1958. Then, with investors having finally realized that the U.S. was not being overwhelmed by Soviet technology, the market went into its own orbit. The Dow peaked at 685 on Jan. 5, 1960.

Another such rally followed the Cuban missile crisis. In September of 1962, the market was marking time around 600, down substantially from the previous year's high of 734. When, on Oct. 22, Kennedy made his TV speech alerting Americans to what the Soviets had been up to in Cuba, the Dow dropped to 558. And that was it. The Soviets blinked; the crisis was discounted; a sigh-of-relief rally began that lasted more than three years. On Feb. 9, 1966 the rally ended with the Dow at 995—a level it took nearly two decades to surpass by a substantial margin.

Some sigh-of-relief rallies are brief. Take the one that followed the Six-Day War in the Middle East. In May 1967 the Dow nosed above 900 for the first time since June 1966, but on June 5 the Arab-Israeli war erupted and the market fell to 847. Then it quickly recovered, going as high as 943 by September. That 11% gain couldn't be sustained, however. The market sold off once more.

North Vietnam launched the Tet Offensive on Jan. 30, 1968. At the time, the Dow was at 859. By Mar. 21 it had fallen to 825. On Mar. 31 President Johnson announced he wouldn't run for reelection. The following day, April Fools', the market rose to 861. Investors began to discount the end of the war, figuring that Johnson's successor would pull out of the costly and inconclusive war. The sigh-of-relief rally continued until Dec. 3, 1968, when the market reached 985, nearly 20% above its post-Tet low. But then it fizzled. The war would drag on; overly optimistic investors had fooled themselves.

Yom Kippur War

UPI Bettmann

Gamma Liaison

Susie Mc Tell SABA

Saddam Hussein

One crisis that had scant effect on the market was the Yom Kippur War of October 1973; the market was rising when it started and kept rising throughout, only to collapse later in the year and continue a long slide that had actually begun in January 1973.

In short, there is no single pattern in postcrisis markets. Some turn into long-lived rallies, such as the markets that followed Sputnik and the Cuban missile crisis. Others are just flashes in the pan, as was the case after both the Six-Day War and Johnson's decision to bow out.

If there are no hard-and-fast patterns, there do seem to be a couple of very general lessons in this brief history of markets and military crises. Lesson One: Markets like peace and eagerly anticipate it. As the French used to say, buy when the cannons start firing, and sell when the bugles sound retreat.

Lesson Two: It is difficult, and probably foolhardy, for individual investors to trade the plunges and rebounds of a market trying to digest news from the front. Unleveraged long-term investors have made out well in the past; short-term investors on margin have not. Lesson Three: underlying economics matter.

What will happen this time? Prior to Saddam Hussein, the market had already turned down on concerns about the budget deficit and an economic slowdown. The Gulf crisis may merely have hastened the drop. In any case, the crisis has already been discounted, both as to its early panic and sigh-of-relief phases. What happens from here on is likely to be determined by what happens to the U.S. and world economies. ■

If Iraq's belligerence convinces the U.S. to wean itself from Middle Eastern oil, the natural gas industry will prosper. If not, things are looking better for gas anyway.

Heads we win, tails we win

By Suzanne L. Oliver

JOHN OLSON, director of equity research at First Boston Corp. in Houston, was growing bullish on the natural gas industry even before Saddam Hussein rolled into Kuwait. Now he's ebullient. "This is the best outlook for natural gas in a decade. We have a war psychology, rising prices and increasing consumption," he says. In this fuel's favor are two key points: It is produced domestically and it is less polluting than oil.

A bitter, early winter and the prospect of tighter air pollution controls caused the prices of gas industry stocks to shoot up in 1989. Pipeline companies, for instance, gained 40% on average. But the Iraq and Kuwait embargo hasn't yet boosted the sector, and so the shares are on the underpriced side, says Olson. The stocks of interstate gas pipelines and of distribution utilities are down 17% this year, while producers and gatherers are where they started. At the same time, oil service companies have gained 16%.

Since Iraq's annexation of Kuwait the price of oil has almost doubled, while the price of natural gas has moved up only 1.5%. Olson, who is 48 and has spent 22 years following energy, sniffs opportunity in this.

"The brighter outlook for gas has yet to be reflected in the markets," he says. Olson expects gas to fetch a wellhead average of $2.30 per mcf by February, up from today's $1.32. (An mcf of gas, or 1,000 cubic feet, contains approximately 1 million Btu of energy, about the same as 7 gallons of fuel oil.)

Dan Ford Connolly Picture Group

John Olson of First Boston Corp.
"This is the best outlook for natural gas in a decade."

A rising price for fuel oil, gas' main competitor, should help gas stocks. But don't forget that a Middle East crisis in 1973 spurred natural gas companies to overzealous exploration. That created the gas "bubble," the excess capacity in gas fields that has dampened gas prices since 1984.

Another caution comes from Daniel Dreyfus, vice president of strategic planning at the Gas Research Institute in Washington, D.C. Without a government mandate that gas be substituted for oil, Dreyfus says, the short-term effect of the embargo on natural gas will be minor. Most fuel-switching has already occurred. Luther Tai, a planning engineer at New York City's Con Edison, says that he has been burning gas at capacity for months now because gas costs $2.33 per million Btu, delivered, while fuel oil runs twice as much.

With or without a Middle East crisis, over the longer term the gas industry could well get a boost in demand from new electric power plants. Even Dreyfus foresees a disappearance by 1996 in the gas bubble. Dreyfus predicts an average wellhead price of $3.60 by 1995.

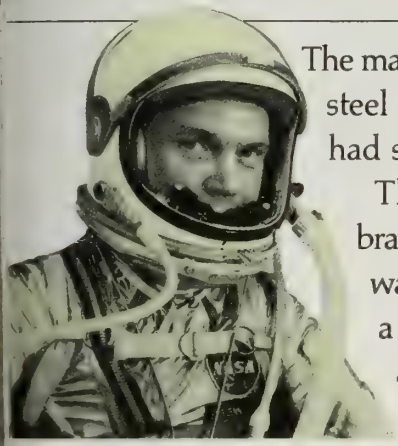
For a gas play with an added inflation hedge, Olson recommends Nerco, which has 42% of its assets in oil and gas producing properties, 34% in low-sulfur coal and 24% in gold and silver mining. He predicts 1990 earnings of $2.05 a share and calculates a break-up value of $30 for the $21 stock.

Oneok, the parent of distributor Oklahoma Natural Gas, should boost earnings only 4% this year, according to Olson. However, a pending acquisition of a subsidiary of Enserch Corp. will bring Oneok new gas supply sources and a potential interstate market outlet.

Nicor is a distribution utility (Northern Illinois Gas) with a little exploration and production on the side. Earnings should reach $3.70 this year. Columbia Gas System is a mix of distribution utilities and interstate pipelines. Recovering from a messy take-or-pay dispute with gas suppliers, it should see a drop in 1990 earnings but a quick recovery next year.

Seagull Energy is a miniconglomerate of gas operations, including a distribution utility in Alaska, a gas-gath-

THEY SAY IT'S GOING TO FLY. OF COURSE, THEY AREN'T GOING.



)n February 20, 1962, the Atlas of Friendship 7 boosted ie first American, John Glenn, into Earth orbit. His istoric flight was the 117th for an Atlas.

The machine had stainless steel skin. The men had steel nerves.

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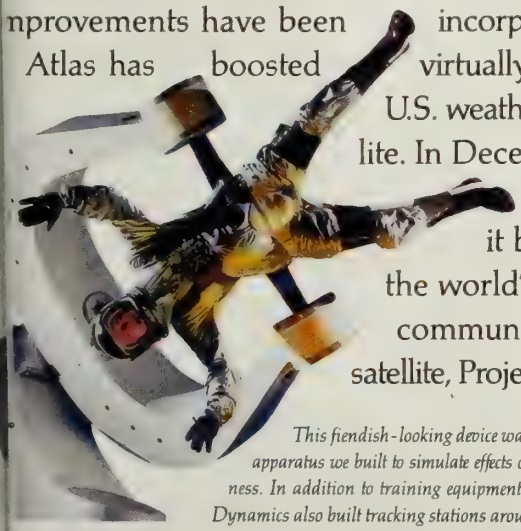
Since then, the stainless steel sheen of the ıtlas skin is the only thing that has remained nchanged, as literally thousands of technological nprovements have been incorporated. Atlas has boosted virtually every U.S. weather satellite. In December 1958, it boosted the world's first communications satellite, Project Score,



This fiendish-looking device was part of the apparatus we built to simulate effects of weightlessness. In addition to training equipment, General Dynamics also built tracking stations around the globe.

which circled the globe broadcasting President Eisenhower's Christmas message. Atlas went on to launch 36 more communications satellites, and dozens of scientific probes, including Pioneer, Mariner, and Surveyor, the first American spacecraft to soft-land on the moon.

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Here are gas producers, transporters and distributors that First Boston analyst John Olson believes are cheap in comparison to break-up values. He assumes that an mcf of gas in the ground is worth $1 to $1.25.

Company	Recent price	1989 revenues ($mil)	1989 EPS	1990 EPS estimate	P/E on 1990 EPS	Dividend yield	Book value	Break-up value
Coastal	33¼	$8,271	$1.90	$2.10	15.8	1.1%	$17.65	$40
Columbia Gas Sys	46½	3,204	3.21	2.25	20.7	4.7	35.50	54
Nerco	20⅝	711	1.90	2.05	10.1	2.9	14.10	30
Nicor	40	1,622	3.67	3.70	10.8	5.1	22.74	47
Oneok	13⅜	618	1.25	1.30	10.3	5.4	12.15	19
Seagull Energy	27¾	178	1.40	2.10	13.2	NM	16.08	32
Sonat	51¾	1,725	2.67	2.25	23.0	3.8	26.78	61
Southwestern Energy	34	126	1.68	1.70	20.0	1.7	13.02	50

NM: Not meaningful. *Source First Boston*

ering system in the Gulf of Mexico and some exploration and production. Olson expects earnings to grow 50% this year to $2.10 a share. High operating income ($72 million) against very manageable debt ($75 million) will allow Seagull to expand its drilling program, which should pay off in the mid-1990s, assuming the gas bubble indeed disappears.

Southwestern Energy has 38 mcf of reserves standing behind each share. Earnings will likely be flat in 1990, but Olson expects them to increase nearly 40% in 1991, as the company adds customers and begins new lease development.

Other Olson recommendations: Sonat, whose reserves have increased fivefold since 1987 to 23 mcf per share; and Coastal Corp., a gas pipeline company with activities in oil and low-sulfur coal. ■

Two years ago Thomas Wathen fulfilled a dream he'd had for years: buying one of the best-known names in the guard business. Will the legend keep on growing?

The new Pinkerton man

By Julie Schlax

WHEN HE WAS STUDYING police administration at Indiana University in the 1950s, young Thomas Wathen became hooked on the history and lore of Pinkerton's, the legendary detective agency founded in 1850 by Allan Pinkerton. His trademark, "The Eye That Never Sleeps," inspired the term "private eye."

Pinkerton's agents chased the likes of Jesse James and Butch Cassidy and the Sundance Kid, and spied on southern troops during the Civil War. Allan Pinkerton provided "executive protection" for Abraham Lincoln; unfortunately, his men weren't working for President Lincoln the night John Wilkes Booth assassinated him. Pinkerton's also broke up the Molly Maguires, the infamous labor group that dominated the eastern Pennsylvania coal mining industry in the mid-1860s and 1870s.

Allan Pinkerton (left) with Lincoln
"Executive protection."

"This stuff really turns me on," explains Wathen, now 60. Wathen went on to build California Plant Protection, the $251 million (1987 revenues) security guard service company he bought for $60,000 in 1964 when it was a struggling five-car patrol company. But he never shook his obsession with Pinkerton's. Between 1986 and 1988 Wathen tried to buy Pinkerton's, Inc. three times.

Finally, in January of 1988, he succeeded—paying $95 million to American Brands for the 140-year-old firm, which was by this time losing about $11 million a year on sales of $413 million.

Wathen quickly combined Pinkerton's with California Plant Protection. He closed Pinkerton's old headquarters in New York City and moved everything—including boxes of Pinkerton's memorabilia now on display in glass-and-wood cases—to Van Nuys, Calif.

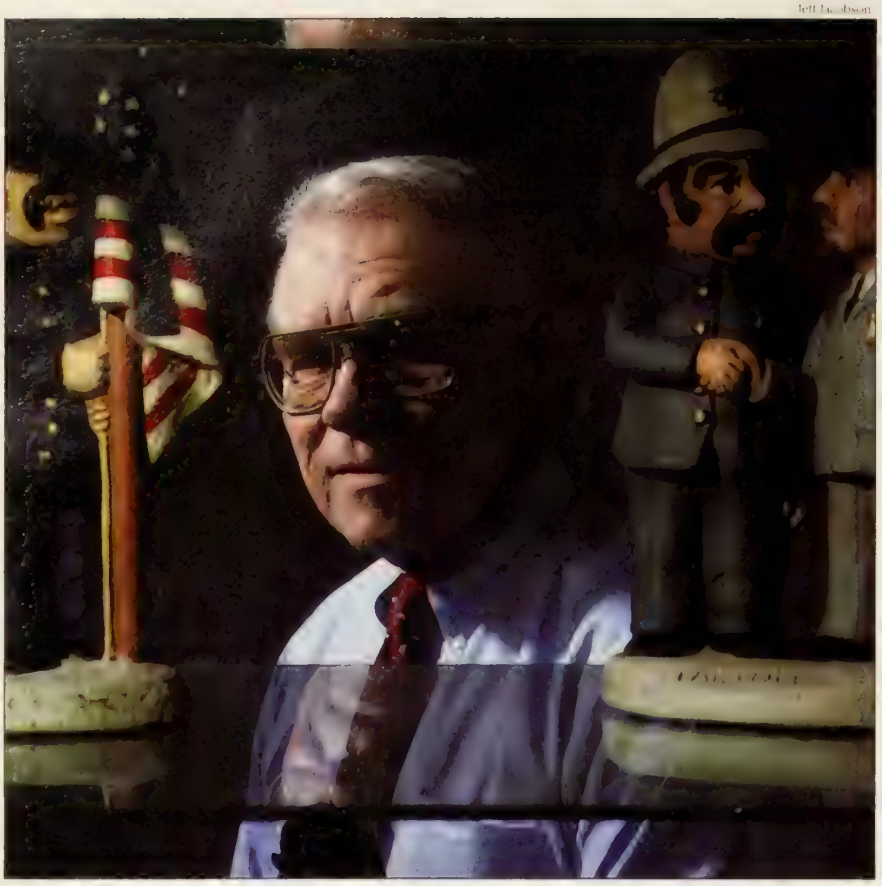
Last year sales of the combined firms dropped to $605 million from $650 million the year before, as Wathen eliminated unprofitable contracts. But earnings jumped to $6.3 million from a loss of $592,000. Pinkerton's now has 38,000 guards, 15,000 clients and 208 offices in 40 states, Canada and the U.K.

"We may have been blind to the risks," says Wathen, "but not to the opportunity." A particularly nice opportunity was seized in April, when Wathen sold 36% of the company to the public at $14 a share, to help ease the debt of $136 million he took on to make the acquisition two years ago. The stock traded recently at about $20 a share, 17 times last year's earnings. Wathen's 60% stake is worth around $66 million.

Wathen prides himself on being a cost-cutter. "I'm as tight as the pro-

The day they
make a
laptop computer
that meets all
your needs, you'll
read about it
in a magazine.

Jeff Lindson



Thomas Wathen, chairman of Pinkerton's, Inc
"This stuff really turns me on."

verbial shoe," he says. He eliminated duplicate personnel and overhead, and combined the client bases of the two operations by closing 61 offices. Wathen even used old company letterheads, forms and checks until they were gone, and terminated the firm's 100-year-old contract with the New York Racing Association. This contract had saddled Pinkerton's with full liability—if someone fell in a race track parking lot it was Pinkerton's fault. Through the years 24 lawsuits had been filed against the firm. "I don't like guns, dogs or liability," explains Wathen, noting that only 1% of his 38,000 guards carry guns.

What Wathen's men do a lot of, particularly on industrial assignments, is provide basic physical plant protection. Hewlett-Packard, for example, is a major client in California. The company has 500 Pinkerton's guards at its Palo Alto headquarters.

That kind of work is Pinkerton's bread-and-butter, accounting for 98% of the firm's revenues. Wathen claims it's not unusual to find company-paid guards in the aerospace industry "making $50,000 to check lunchboxes." Wathen says that, as an outside contractor, he can provide the same service for about half the price.

Wathen's security guards undergo psychological testing, background checks and a site-specific training program. Also, prospective employees must adhere to whatever state regulations are required. In California, for example, these include fingerprinting and a two-hour course on the power of arrest (one must score 100% on an exam).

For the future, Wathen plans to expand the higher-margin investigative areas such as background and insurance claims. Also, his people go undercover to discover drug abuse, inside theft, embezzlement and disclosure of trade secrets to competitors. He also plans to license the Pinkerton's name for use on security equipment such as car and smoke alarms.

Robert McCrie, a professor of law and police science at City University of New York, says that with Pinkerton's, Wathen "bought himself a framework for national expansion." Projections suggest that the security industry will grow at 7% to 10% a year for the next several years as crime continues to increase. Pinkerton's is not immune to economic slowdowns, but, says Wathen, "even in a recession our business does well. There will always be a need for security in good times as well as bad."

Like it or not, Pinkerton's 140-year history suggests he's right. ■

What's former movie mogul Dennis Stanfill doing running a postproduction company that's awash in debt and whose other officers have just bailed out? Stay tuned.

Dennis comes to Burbank

By Kathryn Harris

BURBANK, CALIF. is about the last place anyone would look for Dennis Stanfill, the one-time Wall Street banker who ran Twentieth Century Fox Film Corp. for a decade. The very proper Stanfill is more often found on the society pages or among the Los Angeles businessmen dining at the downtown California Club.

Yet here he is at 63, newly installed as chairman and chief executive of A.M.E. Inc., a video postproduction company that went private in a highly leveraged deal just 12 months ago—and has since lost its entire executive buyout team. Old pals are mystified why Stanfill took the job in August. It

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A.M.E. Chairman Dennis Stanfill
The former Fox chairman has turned to less glamorous work in Burbank.

looks like uphill work in an unglamorous business in a decidedly unglamorous locale.

Burbank, after all, is the butt of Johnny Carson's jokes: It's the less-than-pretty backside of Hollywood, where numerous shops service the big studios. Postproduction companies are factory-like outfits that turn raw video footage into edited final form for networks, syndicators and studios. Rather than negotiating deals over breakfast at the Beverly Hills Hotel Polo Lounge, a postproduction executive has to field calls from clients carping about why something was completed 90 minutes late. It's a far cry from the Fox movie lot in trendy west Los Angeles, where Stanfill could name Princess Grace of Monaco to his board or host glittering parties on a soundstage.

But who cares? While at Fox, Stanfill never seemed totally at ease with the Hollywood scene anyway—rather than move to Beverly Hills, he kept his home in the old-money town of San Marino. His chances of being chosen for another top studio job are slim, given his age. Stanfill spent most of the 1980s as a venture capitalist, but venture capital money is scarcer these days. And with a big stake in A.M.E., there could be a lucrative payout ahead if Stanfill can get a handle on the company's debt. Andrew McIntyre, the 45-year-old entrepreneur who founded the company in 1980, made more than $28 million by selling his A.M.E. shares in the initial public offering and subsequent buyout. Stanfill probably hopes he can do at least as well should the day come that he and A.M.E.'s backers can take the company public again. The video postproduction business is highly competitive but growing, and A.M.E. still claims that it's the industry leader in revenues.

Financial results for A.M.E. aren't published anymore, but the group that took the company private last year projected revenues of $70 million for the year ending Sept. 30, 1990. Those people have all since left, and Stanfill won't say whether that rosy forecast will be met, other than to say sales are ahead of last year's "in our key businesses." Nor will he say whether the company has missed any interest payments or slipped out of compliance with its lending agreement.

The buyout cost $108.5 million, with perhaps as little as $10 million in equity. The company appears to owe more than $10 million annually in interest. It was one of the last such highly leveraged deals completed before the collapse of the junk bond market last winter. Westinghouse Credit apparently bought $38.5 million in subordinated debt, while the First National Bank of Boston lent nearly $60 million. Boston took some equity in the deal, while Citicorp Capital Investors Ltd. put in about $5 million.

Stanfill, an A.M.E. director since last September, must have seemed the perfect candidate to tackle the company's debt. A former Rhodes scholar and investment banker, he spent four years as chief financial officer of Times Mirror Co. before being recruited for the same job at Fox in 1969. Within two years Stanfill was chairman and chief executive. During his tenure the studio's huge debt was virtually eliminated, and the studio struck gold with *Star Wars,* enabling Fox to diversify.

But executive suite bickering hurt his attempt in 1980 to take Fox private in a leveraged buyout. And in 1981 the studio was acquired by Marvin Davis and Marc Rich for over $700 million. Within weeks, Stanfill quit in a huff over Davis' reinstatement of an executive fired by Stanfill for alleged expense-account cheating.

After leaving Fox—with over $7.5 million in cash from the studio sale—Stanfill threw himself into the task of overhauling Los Angeles' troubled public television station, KCET, which was mired in debt. He cajoled foundations for bigger donations and persuaded Security Pacific to go along with the restructuring until a loan could be repaid.

In 1984 Stanfill was a leading candidate to be chairman at Walt Disney Co., a job that ultimately went to Michael Eisner. So Stanfill focused on running his $25 million Los Angeles venture capital fund that specialized in broadcasting, electronics and movie investments. The performance was mixed, and when venture capital seemed too scarce to start a second fund this summer, Stanfill agreed to run a business again. He was already on the A.M.E. board, brought in by an old friend, Lawrence Berkowitz, the former chairman and chief executive who crafted the buyout after working for A.M.E. as a consultant. While Stanfill declines to spell out the terms of his deal, he does say that his personal investment in A.M.E. has gone from small to "significant."

Stanfill has worked his magic before to make debt disappear. If he can do it again, he may yet make a potful of money. ■

"EXCEPT for the RAW OCTOPUS I really loved NAGOYA."

ANNA CARTER
Newberry, South Carolina

NEWBERRY, SOUTH CAROLINA, is a long way from Nagoya, Japan. But last summer as a guest of the Watanabe family, Anna Carter found the two places were a lot closer than she imagined. "I had an incredible time," she says.

Her Japanese hosts spoke English and were as kind as could be. They sometimes even prepared American style meals just so she wouldn't get homesick.

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But after all, the main idea behind the "Summer in Japan" program is to give young people a chance to experience other cultures.

To live the way other people live, strange customs and all.

Japanese meals can be an adventure for anybody. How did they go down with Anna? Tempura was nice. And teriyaki's tasty. But as for raw fish, especially sea urchins and octopus, well, the less said the better. "Sometimes I'd have given *anything* for a slice of pizza," she laughs.

There were so many fascinating things about the people and the places she visited, though, that she is eager to go back.

"For someone who'd never been outside the U.S., it has really opened my eyes. I made lots of friends, and I'd love to see them again."

Toyota wholeheartedly supports the "Summer in Japan" scholarship program.

Administered by the Youth For Understanding International Exchange, its aim is to help American kids better understand Japanese culture. A companion program brings Japanese kids here. And in so doing, helps foster close friendship between the two countries.

Since 1975, more than 200 Toyota Scholarship students have taken the trip across the Pacific.

The way we see it, nothing broadens the mind more than getting a little taste of the way other people do things.

TOYOTA

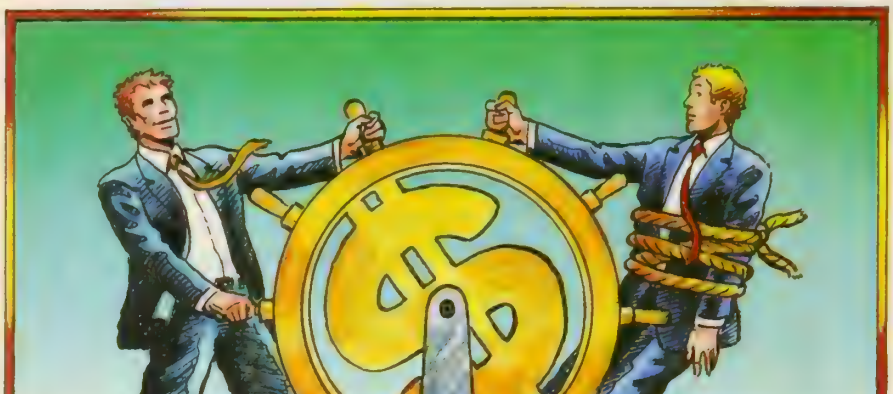
INVESTING IN THE INDIVIDUAL

On the Docket

Why a recent appellate decision will make it harder for the SEC to rewrite its antiquated proxy regulations.

States' rights vs. shareholders' rights

Jean-François Allaire



By James Lyons

HOW MUCH SAY should stockholders have in running corporations? And who gets to make the rules?

The Securities & Exchange Commission is finally grappling with these issues as it begins reexamining its proxy regulations. Some shareholder-voting practices are holdovers from the late 1800s. The reason, for example, that you must be a shareholder at least 30 days prior to an annual meeting to vote is a vestige of the time when it took a month to contact shareholders and collect their proxies.

But a recent decision by the U.S. Court of Appeals for the District of Columbia Circuit suggests that the SEC's authority to promulgate new proxy guidelines may be more restricted than the SEC thinks it is.

Though Congress granted the SEC power to set the mechanics of proxy voting, states and the stock exchanges get to set the substance of shareholder votes—such as when directors must be elected. Moreover, states have the authority to set the rules for the annual meeting, where the outcome of shareholder votes is determined.

The conflict between the SEC and the states began coming to a head in June. The case stemmed from the SEC's attempt to regulate the circumstances under which dual classes of stock with different voting rights could be listed. In essence, the SEC said that a corporation could not use the voting process to disenfranchise a class of shareholders. Instead, shares with lesser voting rights would be sold in new market transactions.

This one-share, one-vote rule was intended as a market solution to a thorny problem—management insulating itself from possible takeovers. But the federal court didn't buy it.

"The SEC's assertion of authority directly invades the firmly established state jurisdiction over corporate governance and shareholder voting rights," the court wrote in a unanimous decision.

The ruling is an unmistakable warning shot to the SEC that it not intrude on corporate governance matters when it rewrites the proxy rules. "There is a very serious question about where the line can be drawn as to how much the SEC can regulate in the corporate governance area," says Robert Rosenbaum, the partner at Washington, D.C.'s Arnold & Porte who pressed a challenge by the Busi ness Roundtable against the SEC' one-share, one-vote rule.

Will the states protect investor better than the SEC? The record is no reassuring. Massachusetts and Penn sylvania, for example, have enacte silly antitakeover laws. These actual ly wind up hurting investors, becaus the market tends to discount the pos sibility that a high premium will b paid in a takeover.

The SEC's authority on proxy mat ters may be ambiguous, but the inter ests tugging at the Commission ar not. The SEC's reexamination of th proxy rules was touched off last No vember when the California Publi Employees' Retirement System, th nation's largest public pension fund asked the SEC for a "broad re-evalua tion" of the proxy system. Since then the United Shareholders Associatio (USA), founded by T. Boone Pickens Jr. and Fidelity Investments have sub mitted their own comments, as have other organizations.

Among other things, the Pickens group wants the SEC to require shareholder approval for greenmail, golden parachutes and poison pills. But aren't these the substance of corporate governance—and therefore better left to the states? That's what the American Society of Corporate Secretaries thinks. In its reply to the USA petition, ASCA says these proposals do not involve "proper procedural considerations" and amount to a "fundamental realignment of . . . state-chartered corporations."

So what if they do? The fact is rules on proxies—be they state or federal—don't reflect the current nature of stock ownership. Individuals mostly own stock through mutual funds or pension plans, which are typically managed by large institutions. These institutions are seeking a greater say in how corporations are run, and they should have it. Under today's system, institutions face restrictions when trying to communicate with other shareholders. They also face barriers to getting management to change its policies. Left with no alternative other than to sell their shares, institutions are then criticized for having short-term investment strategies.

In redrafting the rules, the SEC will have to be careful not to overreach. Given the fact that it has an ambitious chairman in Richard Breeden, it is possible that the SEC will have its wings clipped again by the courts. But this is not a reason for the Commission to stop pushing for reform of the outdated proxy rules. ■

Edited by Laura Saunders

Your home or your ski condo has collapsed in value. You walk away from the mortgage. Bad news: The bank comes after you. Worse: The IRS nails you, too.

Hard luck for homeowners

FROM BOSTON TO VAIL, from Houston to Colorado Springs, thousands of homeowners are shocked to discover that real estate can decline in value. Many are about to get another shock. "You cannot deduct a loss on the sale of a home," declares IRS publication 523.

Fair? No. But for once the tax law is brief and crystal clear: If you lose money on a home, whether principal residence or vacation home, you don't get a deduction. You can't even offset the loss against the taxable gain on another home. It's one of the little-known asymmetries in the tax code.

For decades nobody much cared that this was so. Decades of rising or at least stable home prices in the U.S. have obscured the ugly fact. "My clients have no inkling of this. They just asssume that if they have a loss, they'll be able to use it somehow," says Marc Boyce, a CPA with Grant Thornton in Colorado Springs.

Here's some more bad news for recent home buyers. Let's say the home's value has fallen so sharply that your equity is wiped out, with the mortgage balance higher than the value of the home. You walk away from the mortgage. Forget that—the bank that wrote the mortgage can come after you, garnishing your paycheck or snatching other assets. And if the bank fails to come after you, then the Internal Revenue Service can. You owe taxes on income from a "forgiveness of debt," even though, in fact, you are losing your shirt.

Chas B Slackman

In some circumstances a disastrous home investment could leave you owing money to both the bank and the IRS. They could both garnish your pay.

The situation is not yet critical, but it is getting that way. According to the National Association of Realtors, 26 out of 96 housing markets reported a drop in the median price of houses sold between the second quarters of 1989 and 1990, more than double the figure reporting drops between 1987 and 1989.

Say a young investment banker bought a Manhattan apartment for $300,000 with 10% down a few years ago. He paid down the mortgage to $260,000, but the apartment's value has fallen to $225,000. If he sells for $225,000, he has a nondeductible loss of $75,000.

If he simply walks? Then the bank will foreclose and sell the property at auction, quite possibly without multiple bidders. If the market is slow, it may appraise the property, often conservatively. Either way, the property may wind up with a fire-sale value of $190,000.

At this point the mortgage allows the bank to go after the former owner for the $70,000 difference, plus some (nondeductible) interest accruing during the proceedings. In the past, many banks haven't chased after departing homeowners, but Laventhol & Horwath tax expert Stuart Becker expects attitudes to harden as more high-end properties with well-heeled owners default.

Something like this actually happened to a client of Grant Thornton's Marc Boyce. A retired Army officer bought a home for $60,000 in Colorado Springs with a mortgage insured by the Veterans Administration. Soon after, the house dropped in value, and the client mailed the keys back to the VA. The VA sold the house for about $30,000, and has now garnisheed the officer's retirement pay to recoup the difference.

In addition, the IRS requires banks to file a 1099 form notifying it of foreclosures. That's because the moneylosing owner may owe tax on "forgiveness of debt." Let's say the mortgage balance is $260,000 but the bank can net only $190,000 in a sale of the property, and it does not pursue the homeowner for the $70,000 shortfall. Then $70,000 of debt has been "forgiven," and that sum constitutes taxable income to the hapless former homeowner. That amount is supposed to find its way onto his 1040 tax return. If he forgets to include it, he is liable for back taxes, interest and maybe penalties for understating his

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income.

Even if the bank doesn't file the 1099 form disclosing the foreclosure, or screws it up—as sometimes happens—taxpayers aren't home free. Grant Thornton CPA Jerrold Paine remembers IRS agents who, finding the 1099 forms incomplete, simply got their cases from court records of foreclosures in Houston.

Conceivably, both the IRS and the bank could come after you on a moneylosing house. Let's say you bought your first house for $100,000, sold it for $300,000, and rolled your profits into a new $300,000 house, on which you got a big mortgage. The value of the house falls and you depart, leaving behind a mortgage balance of $260,000. The bank sues you for its $70,000 loss when it auctions the property for $190,000. As far as the IRS is concerned, you made a $90,000 profit, fully taxable, when the auction took place. Why? That's the difference between the $190,000 sale proceeds and your "tax basis" of $100,000, which goes back to the first home investment.

A retired Army officer bought a home for $60,000 in Colorado Springs with a VA-insured mortgage. The house dropped in value, and the client mailed the keys back to the VA. The VA sold the house for about $30,000, and has now garnisheed the officer's retirement pay to recoup the difference.

What if you rent the property after moving out, and sell it later? The decline in value during the time the house is rented can give rise to a deductible capital loss. Say your $300,000 home is worth only $180,000 when you first rent it, and you subsequently sell it for $165,000. You eat the first $120,000, but the remaining $15,000 is a deductible capital loss. Capital losses can absorb any amount of capital gain plus up to $3,000 a year of salaries and other income. Thus, it could take five years to use up a $15,000 loss.

Of course, who's to say that the house's value was only $180,000 when you moved out and the renter moved in? Taxpayers will fudge, but auditors will audit.

Minor relief for homeowners: If you throw in the towel and file for bankruptcy, then debt forgiven in that proceeding does not give rise to taxable income.—L.S.

How to revitalize a city.

Your Full Service Bank® knows that the heart of any city is the neighborhood. And that improving the neighborhoods helps build the quality of life throughout the city.

A good example of this philosophy in action is in Detroit, Michigan, where NBD Bank has been hard at work with programs to encourage neighborhood home ownership, and home improvement. They've funded 200 workshops on home repair, and even initiated the *Tool Lending Library*, that allows residents to borrow tools for home fix-up through three branches of the Detroit Public Library.

In 1989 NBD became the first bank in Michigan to establish a Community Development Corporation that works with community groups and private developers to rehabilitate, sell and lease residential real estate.

NBD is also committed to youth and education, with programs that help young people stay in school, gain self-esteem and learn job skills. One such program is known locally as *"12-Together"*...which brings groups of six potential school dropouts together with six peers who are determined to finish their education.

The religious leadership of Detroit is a powerful and stabilizing force in the neighborhoods, and NBD works closely with them, through their Community Affairs Forum. In 1987 NBD organized the Family Development Fund which is guided by an interdenominational group of clergy and provides grants to congregations in low income areas for food, shelter, education, and training for the underprivileged.

Activities like this are taking place in cities and towns all across America. If you'd like to know more about how your bank is doing "a lot more than just banking" for your own community, talk to a banker at your Full Service Bank!

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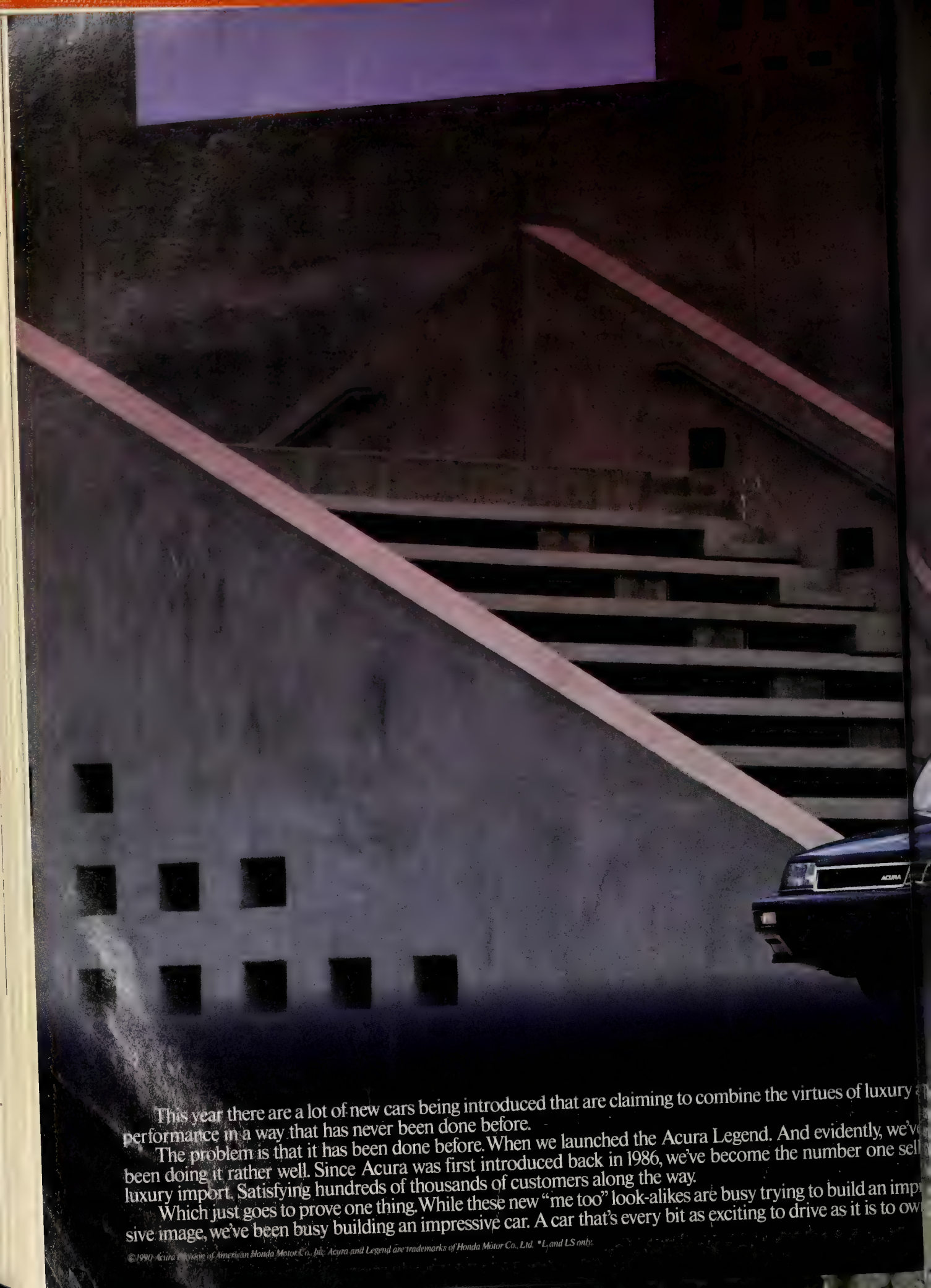

This year there are a lot of new cars being introduced that are claiming to combine the virtues of luxury a performance in a way that has never been done before.

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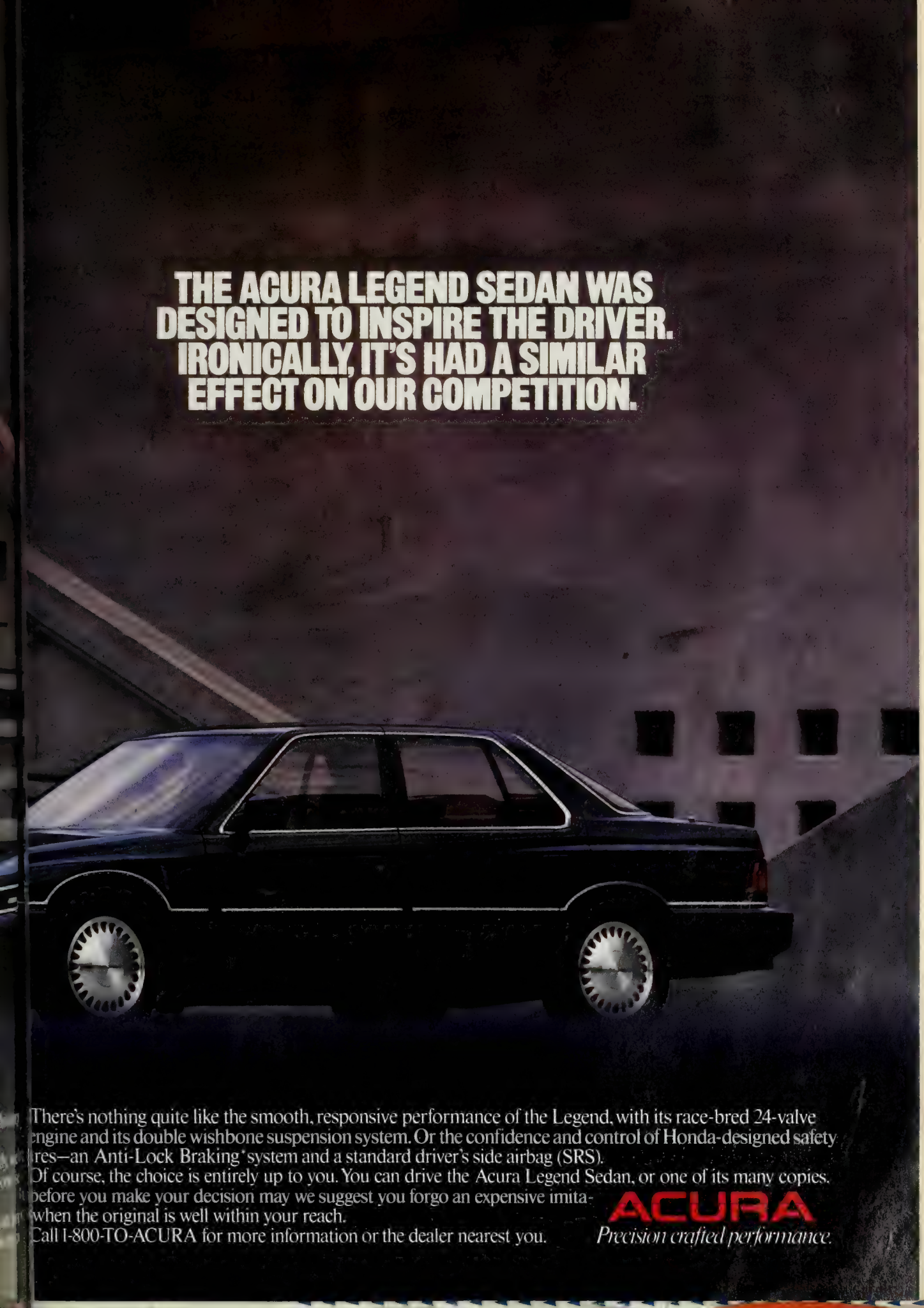
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A designed-in-the-U.S.A., built-in-the-U.S.A. car now carries a Japanese nameplate. What's going on here?

Man bites dog

By Jerry Flint

THE AUTO BUSINESS has been working like this: Detroit wants a good small car, so the Japanese build it and put an American nameplate on it, and it's sold by Detroit's dealers. They call that "badge engineering." Chevrolet's Geo line is made by Isuzu, Toyota and Suzuki; Chrysler's Dodge Colt comes from Mitsubishi. Some are built in joint-venture plants in the U.S., but the plants are run by Japanese managers, and key parts, like the engines, are usually Japanese. It's as common as dog bites man.

But down in Louisville, man is biting dog. Brawny utility vehicles are rolling off a Ford line there. Most are called Explorers, and are hot vehicles in a mediocre market. Even *Consumer Reports,* with its built-in prejudices against American cars, hailed Ford's Explorer in its latest issue.

Even the Japanese, with their obsession with quality and finish, approve. So much so that some Explorers get a few minor cosmetic changes and turn into Mazda Navajos, which will be sold in the U.S. starting this month in showrooms of Japanese Mazda.

"This is a milestone in history," says Jim Englehart, Ford's director of light truck development, who worked on the deal.

He may well be right. In a few years another made-in-the-U.S.A. vehicle will carry a Japanese badge. This time it will be a small van now being developed by Ford and Nissan. Ford will build it outside Cleveland, some for Mercury dealers, some for Nissan.

Japanese carmakers such as Honda export some cars from their U.S. plants, even to Japan. This is different. The Navajo and that future van come from Detroit's own factories, and they are expected to be good enough to pass for Japanese. Who says U.S. workers can't compete with Japanese?

The Japanese executives were highly demanding. They even suggested changing the shape of the knob on the rear hatch so it would feel better to the touch. "They had a fairly large team of guys doing a lot of detailed looking at the vehicles," says Jim Englehart. The Japanese were particularly committed to tight sheet metal fits. "Both of us learned," says Englehart. Differences are minor: the grille, the bumper, some interior trim. Both use the made-in-Japan Mazda manual transmission and the made-in-France Ford automatic transmission.

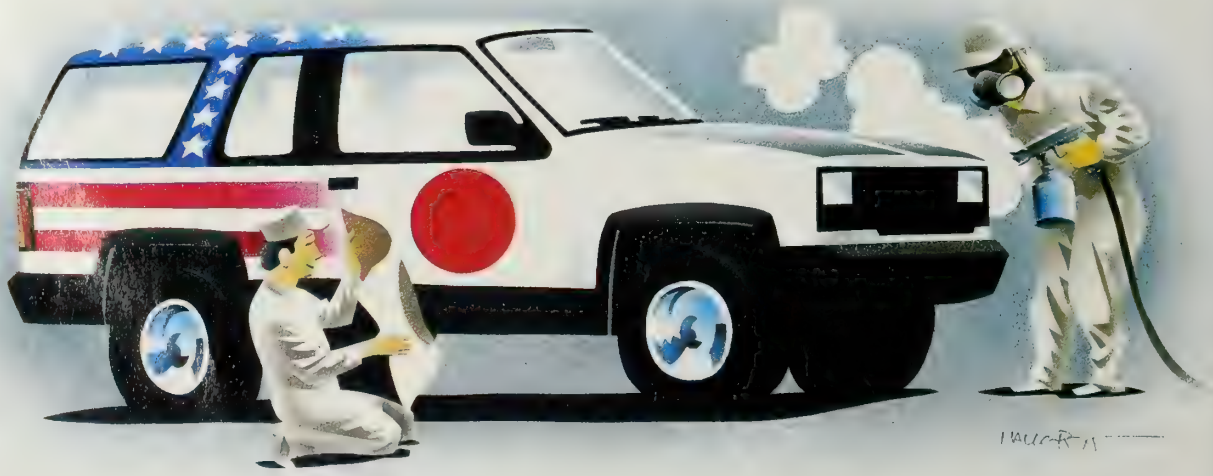
This could be the start of something big. The U.S. auto industry is loaded with overcapacity; in Europe there's undercapacity. Perhaps U.S. auto plants might produce European cars for European subsidiaries of GM and Ford. That might prove cheaper than engaging in expensive plant expansions in Europe. Demand is burgeoning there for specialty vehicles—the four-wheel-drives and vans. U.S. costs compare favorably; the Japanese seem to be saying that quality is up there, too.

Now, however, Europeans have lower-cost options for increasing production, like three-shifting.

Slapping their nameplates on U.S.-made vehicles would also enable European and Japanese producers to broaden their product lines at relatively small cost. "It's very difficult for any full-line manufacturer to compete in every segment on a go-along basis," says Englehart. "You can't be a leader in every niche and every segment and keep them all up to date."

"Our dealer organization would just as soon we didn't do it," says Ford's Englehart. Why? At full production Ford can turn out 250,000 Explorers a year. Only 18,000 will be badged as Mazda's two-door Navajo in the first year, but the Ford dealers could probably sell those, too. Ford clearly feels the future potential is worth taking risks for.

Ford and Mazda have a special relationship: Ford owns 25% of the Japanese company, buys its sporty Ford Probe from Mazda's U.S. plant and relied on Mazda to engineer its new small Ford Escort. In this context, the Navajo is a natural development in growing intercompany cooperation. "We have a very strong long-term relationship with Mazda. It's a natural," says another Ford vice president. ■



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That's why Martin Marietta is helping to underwrite a new regional Academy for Teachers of Science and Math at the University of Tennessee. It's an intensive program of study and discussion for Martin Marietta Fellows; outstanding educators in all grade levels. Through the Academy, the private sector, government and academia are all joining together to support a critical educational initiative by President Bush.

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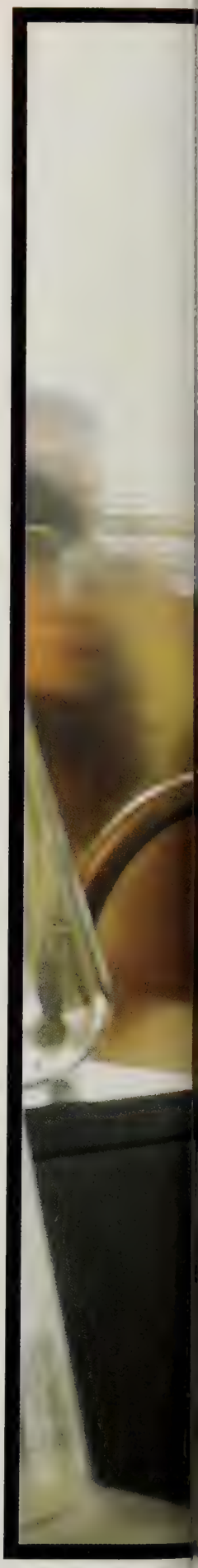

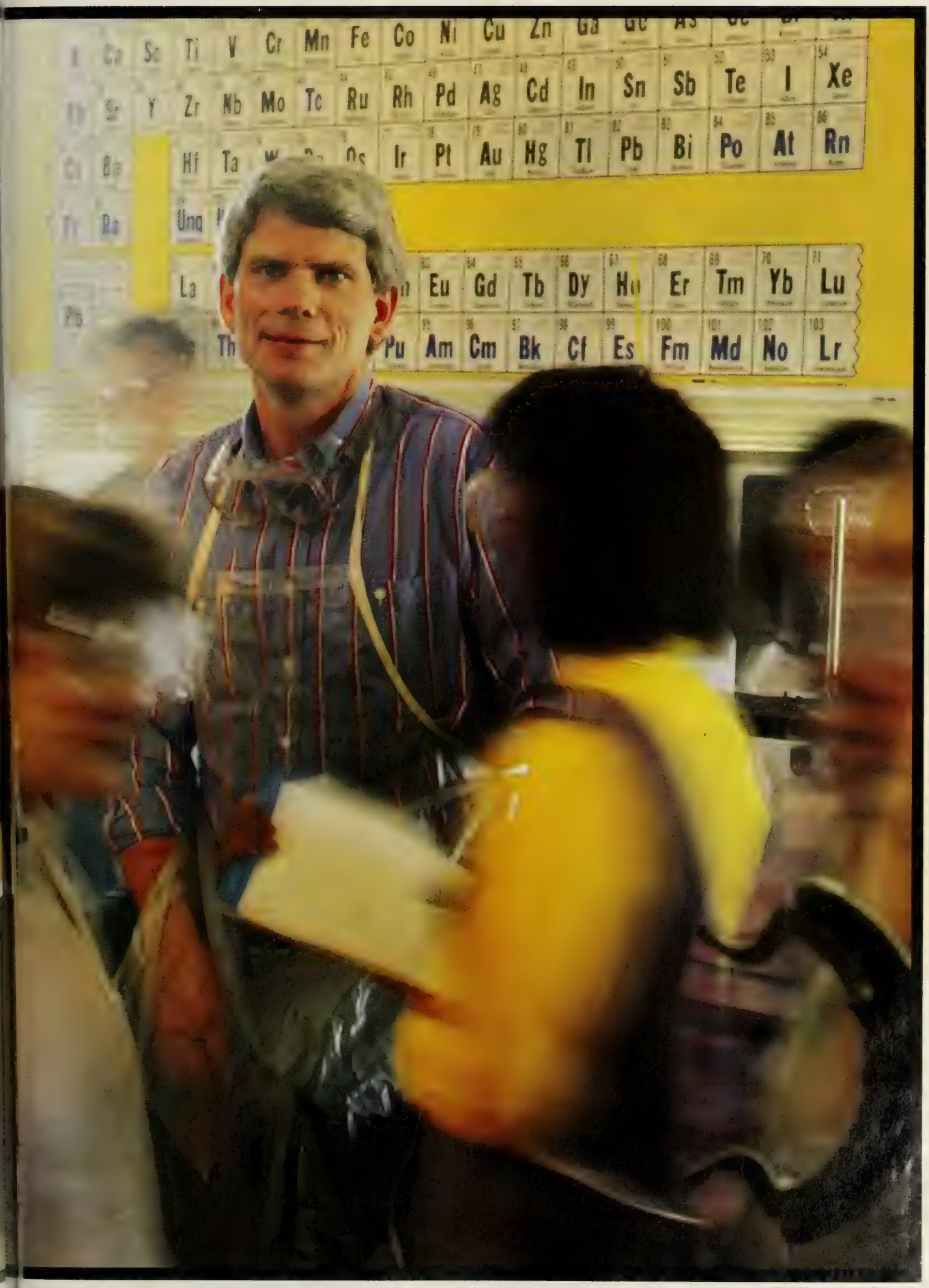

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The European Community's agricultural protection and subsidies have impeded U.S. exports. They'll do even greater damage to Eastern Europe's new capitalist economies.

Your market, not your money

By Peter Fuhrman

THE RICH Western European nations that constitute the European Community have heaped all sorts of praise on the liberalizing Eastern Europeans—promising aid money and technical assistance.

But, as the Eastern Europeans are learning, talk comes cheap in Brussels; useful action is much dearer. Unless the European Community sweeps aside its heavy-handed policies against food imports, Eastern Europe's economic rebuilding program will be badly hobbled.

With many basic industries in a degraded condition, the Easterners don't have much in the way of manufactured goods to export. But they do have food. Farming will be the one sector through which Poland, Hungary and Czechoslovakia can meet their fast-rising oil import bills and pay for the broader costs of economic reconstruction. This assumes, however, that they can find export markets in hard-currency countries.

Eastern Europe's farmers work some of the world's most fertile farmland. The region has a long tradition as an agricultural exporter. Up until 1945, Poland, Hungary and Czechoslovakia were among the most productive agricultural economies in Europe. But after four-plus decades of socialism, Eastern European farm yields are at best one-third lower than those in West Germany.

A comeback is already under way, from the broad wheatfields of southern Poland to the fertile grazing land of Hungary. Farm output there could rise by 50% in the coming decade, according to agricultural experts at the Organization for Economic Cooperation & Development. Expect no less rapid advances in food processing, from Polish hams to Hungarian canned fruits and vegetables. Food processing offers some of the very best opportunities for Western investors in Eastern Europe.

By privatizing farmland and scrapping food and agricultural subsidies, the stage has been set for a big expansion not only in output but specifically in output of produce that can earn hard currency abroad.

But there's a hitch. The natural market for this Eastern food is in Western Europe, but the European Community's Common Agricultural

Alon Reininger/Contact

Farmers readying for harvest in Hungary

Economic rebuilding will be hobbled by Western European food policies.

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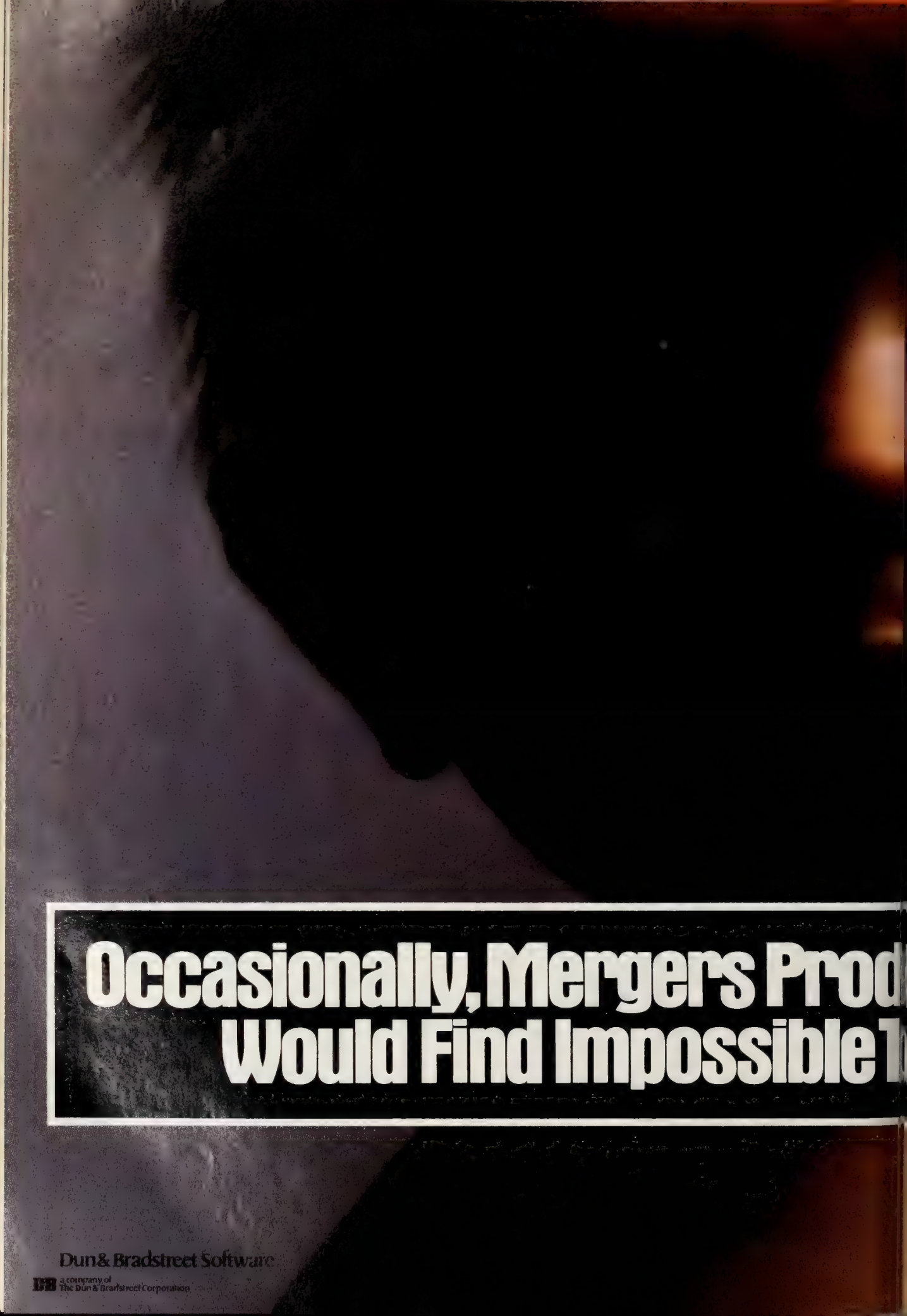
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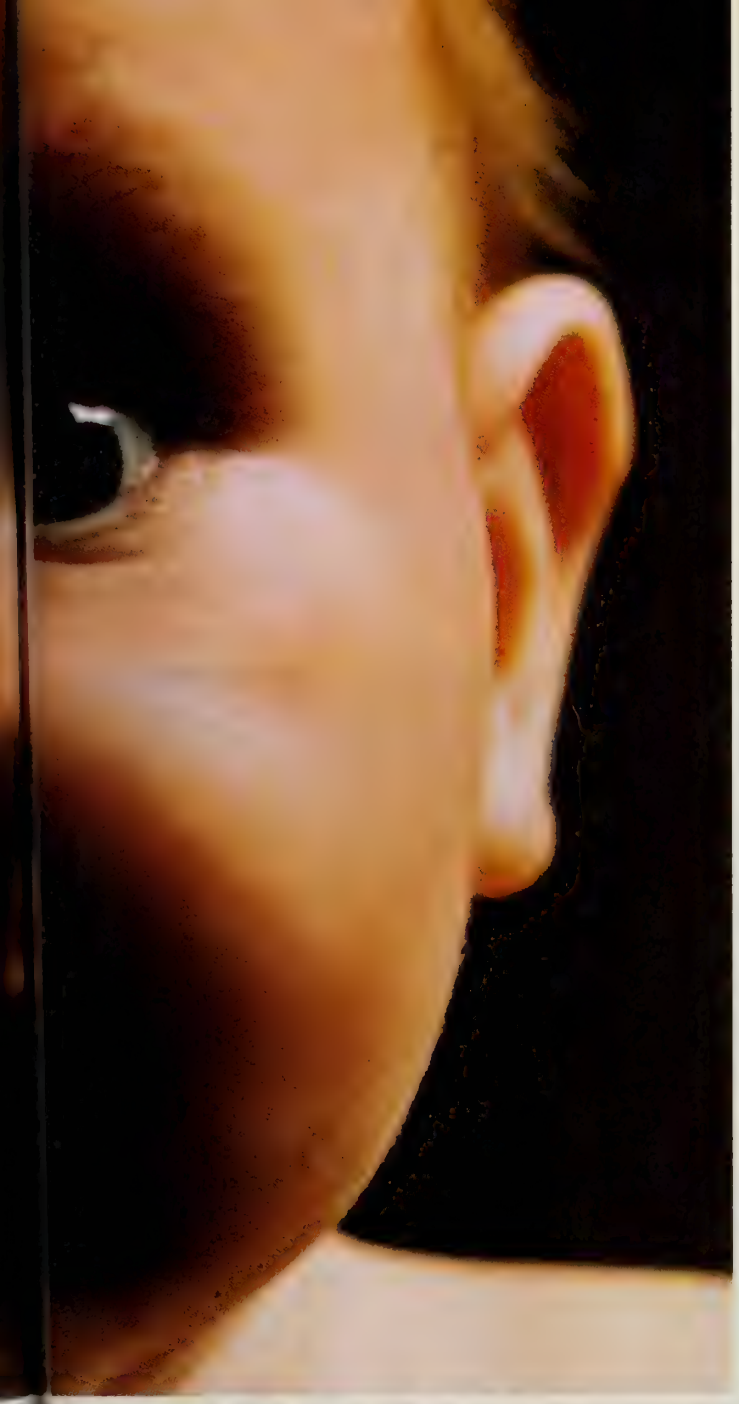

It's not surprising that two can sometimes accomplish things that one never could. What is surprising, however, is just how beneficial the merger of McCormack & Dodge and Management Science America (MSA) promises to be.

Together they are combining their talents and energies, along with an unprecedented wealth of experience, to form D&B Software.

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D&B SOFTWARE

Policy sets quotas for all agricultural imports. In 1988, the last year for which the Community compiled statistics, Poland, Hungary and Czechoslovakia sold a little over $2 billion in farm products in Western Europe. That represents just 3% of total EC food imports.

The Community's Brussels bureaucracy has lately increased some quotas for Hungary and Poland, but these concessions amount to very little, especially with a big harvest on the way. The U.S., by comparison, has opened up its market to Eastern European food products, but the Western European brethren have been more forthcoming with talk than with import liberalization.

Strip away the alibi about the need for food self-sufficiency, and the European Community's agricultural policy amounts to little more than a $60 billion aid program for its 9.5 million farmers. Consumers are made to pay doubly for this welfare program: Tax money goes to buy up the huge farm surpluses, while food prices in European shops are set at high protected levels. Nowhere in Western Europe, for instance, are you likely to pay less than $2 for a dozen eggs, despite an oversupply in the market.

Given a choice, the European Community would prefer to keep its market shut to cheap imports while continuing to use Eastern Europe as a dumping ground for its own agricultural surpluses, including the 8 million tons of wheat now moldering in storage. Last year Brussels gave Poland over 1 million tons of that grain as aid. However charitable this might seem, the free grain slashed the local price in Poland and eliminated any chance a Polish grain farmer had of earning a decent profit. Wisely, the Polish government is now trying to sell some grain for hard currency on the world market.

The Soviet Union, of course, is a potential market for any Eastern European food surpluses. In the Soviet Union, despite a huge harvest this summer, there is no improvement in the chronic wastefulness and inefficiency that have plagued Soviet agriculture since 1917.

Eastern Europe has long exported a fixed amount of food each year to the Soviets in exchange for oil and other raw materials. Beginning next year, the Soviets will pay for all of their agricultural imports with hard currency. With low labor and and transport costs, Poland and Hungary should find it easy to undercut other exporters.

However, this threatens Western Europe's substantial Soviet food market. To meet this new competition, the European Community will almost certainly choose to boost the $11 billion in export subsidies it already pays out each year, in order to compete against cheaper Polish and Hungarian products.

Josef Polleross/J.B. Pictures

A Polish farm in the hamlet of Brzezinka
Reviving a proud and productive agricultural tradition.

These blows against free trade might be defensible if agriculture really were a vital part of the Western European economy. But in none of the richer European Community countries does agriculture represent more than 4% of gross national product. In Britain and West Germany, that figure is below 2%, as in the U.S. Compare that with Hungary and Poland, where agriculture accounts for over one-fifth of total national income.

Thus, while political walls have tumbled, the barricade in Western Europe's food market grows higher all the time. Brussels' stubborn coddling of its politically powerful farmers threatens to overwhelm all the good intentions that the European Community countries hold for the recently freed Eastern Europeans. ■

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Oryx Energy was a report-obsessed division of a big company. Today it is an entrepreneurial company standing on its own.

Energizing a bureaucracy

By Toni Mack

ORYX ENERGY CO.? The name's not a household word, but Oryx is a good-size company with probable 1990 revenues of around $1.7 billion. The name dates only to 1989, but the company is actually the former domestic exploration arm of Radnor, Pa.'s Sun Co. Sun spun it off in 1988 because it hoped stockholders would benefit from owning two pieces of paper instead of one.

Actually, Sun wasn't giving up much. The Dallas-based exploration unit had a sorry record of finding too little oil and gas at too high a cost. In the three years before the spinoff, reserves shrank 17%. The unit spent about twice the industry average of $6 a barrel to find new reserves.

No longer. Chairman Robert Hauptfuhrer, 58, and President James McCormick, 62, have turned Oryx into a lean, entrepreneurial outfit. Even before the Iraqi invasion of Kuwait boosted oil prices, Oryx' earnings, cash flow, asset value and stock price were swelling. One hot new oil leasehold alone accounts for 13% of its current asset value. Hauptfuhrer could have stayed at the much larger company, where he was president. He chose to join Oryx. "It was my chance to run a company," he says.

How did Hauptfuhrer and McCormick do it? Rather than get a big-name management consultant to study the company and mandate top-down changes, Oryx opted for the bottom-up approach. It hired United Research Co. of Morristown, N.J. to organize Oryx employees into 26 teams of middle managers and lower level staffers and asked the teams to come up with their own solutions.

One problem was that the company was smothering in paperwork. It had been churning out 4,603 reports a year on practically all aspects of its operations. More than one report for every

Reid Horn

Oryx Energy Chairman and Chief Executive Officer Robert Hauptfuhrer
"An organization will ultimately reflect the risk preference of the chief executive."

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Oscar Wilde

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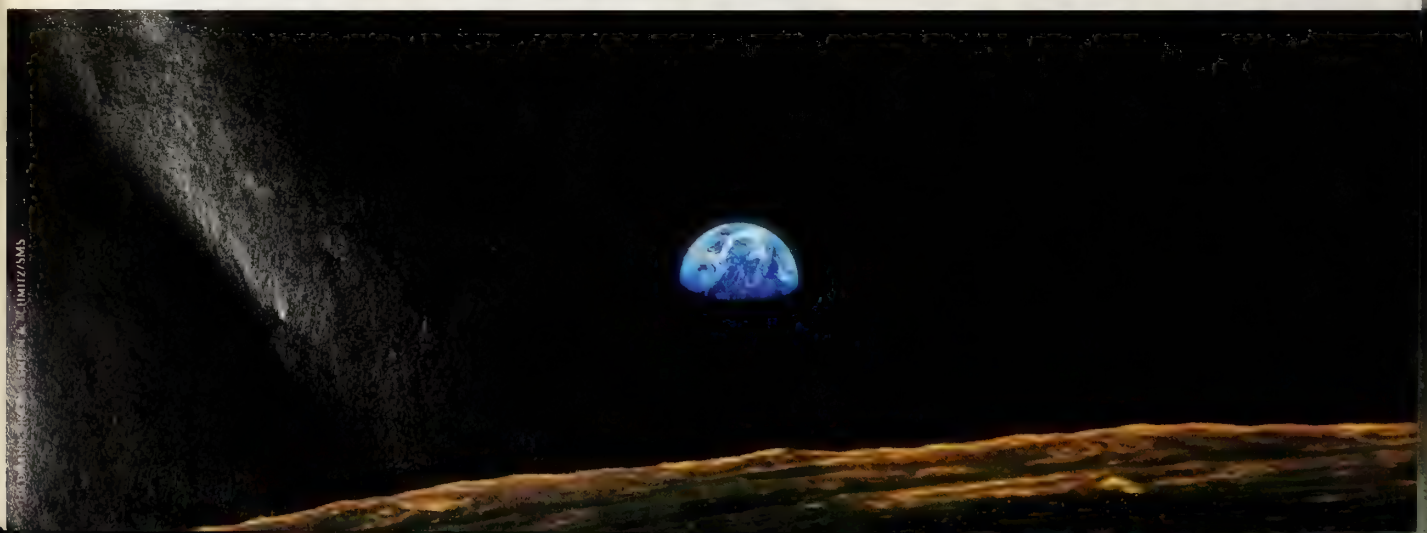

new mysteries and realize ever bolder dreams, both on earth and beyond. Through the merged resources of our Mercedes-Benz, AEG, and Deutsche Aerospace corporate units, functioning within the newly formed Daimler-Benz Group, we are gaining a whole new spectrum of opportunities for progress. We will continue to build the best automobiles in the world, and constantly improve their safety and environmental compatibility. Utilizing shared knowledge and experience from all the Daimler-Benz corporate units, we will create new concepts in aviation, aerospace and the communications sciences.

With our new business structure and approach, we will turn dreams into growth opportunities.

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Reid Hall

Oryx Energy President James McCormick
"We had to change to survive."

employee. The teams working on the problem winnowed the number by 28%. Another work team concluded that Oryx' 14 field offices could be cut to 4, eliminating some 300 jobs. Altogether, says McCormick, the teams "did away with three and sometimes four levels of management." Total employment at Oryx is down to 2,900 from 4,200.

One team worked on the destructive competition between Oryx' exploration and production divisions, which fought over prospects and capital. Today the two units hold regular meetings to share information on projects. This has helped cut Oryx' cost of finding oil and gas by two-thirds. It's also doubled the so-called "replacement ratio," which measures oil and gas found against oil and gas produced. Both figures are key measures of a company's oil-finding prowess.

McCormick still keeps a buzzer in his credenza. He regularly used the battery-powered contraption at management meetings two years ago to cut off executives who offered excuses for why the company couldn't change. "We had to change to survive," he says.

He doesn't need the buzzer any longer. "Without doubt," says Hauptfuhrer, "an organization will ultimately reflect what it perceives to be the risk preference of the chief executive." Management lost no time letting the troops know that it wasn't at all averse to taking risks. Not long after the spinoff, McCormick made a quick decision to lease some south Texas exploration acreage. The old Oryx would have first studied the prospect exhaustively, with what Hauptfuhrer calls "CYA [cover-your-behind] reports." The new Oryx plunged ahead, leasing 240,000 acres, much of it at less than $60 an acre.

The prospect, known as the Austin Chalk, has become one of the hottest onshore areas in the lower 48 states; leases now go for as much as $500 an acre. By tapping the Chalk with wells that first go down vertically and then curve around to the horizontal—a new technique known as horizontal drilling—Oryx so far has added 42 million barrels of reserves. "I don't think there's any question that we'll ultimately exceed 100 million barrels" there, says McCormick. C.J. Lawrence analyst Frederick Leuffer reckons Chalk reserves account for $6.44 of Oryx' $48.75 a share asset value.

This year Oryx' capital spending program is about $470 million, compared to $428 million in 1989. "The authority to spend 95% of that resides outside this [headquarters] office," Hauptfuhrer says. "Before, those decisions were made by headquarters."

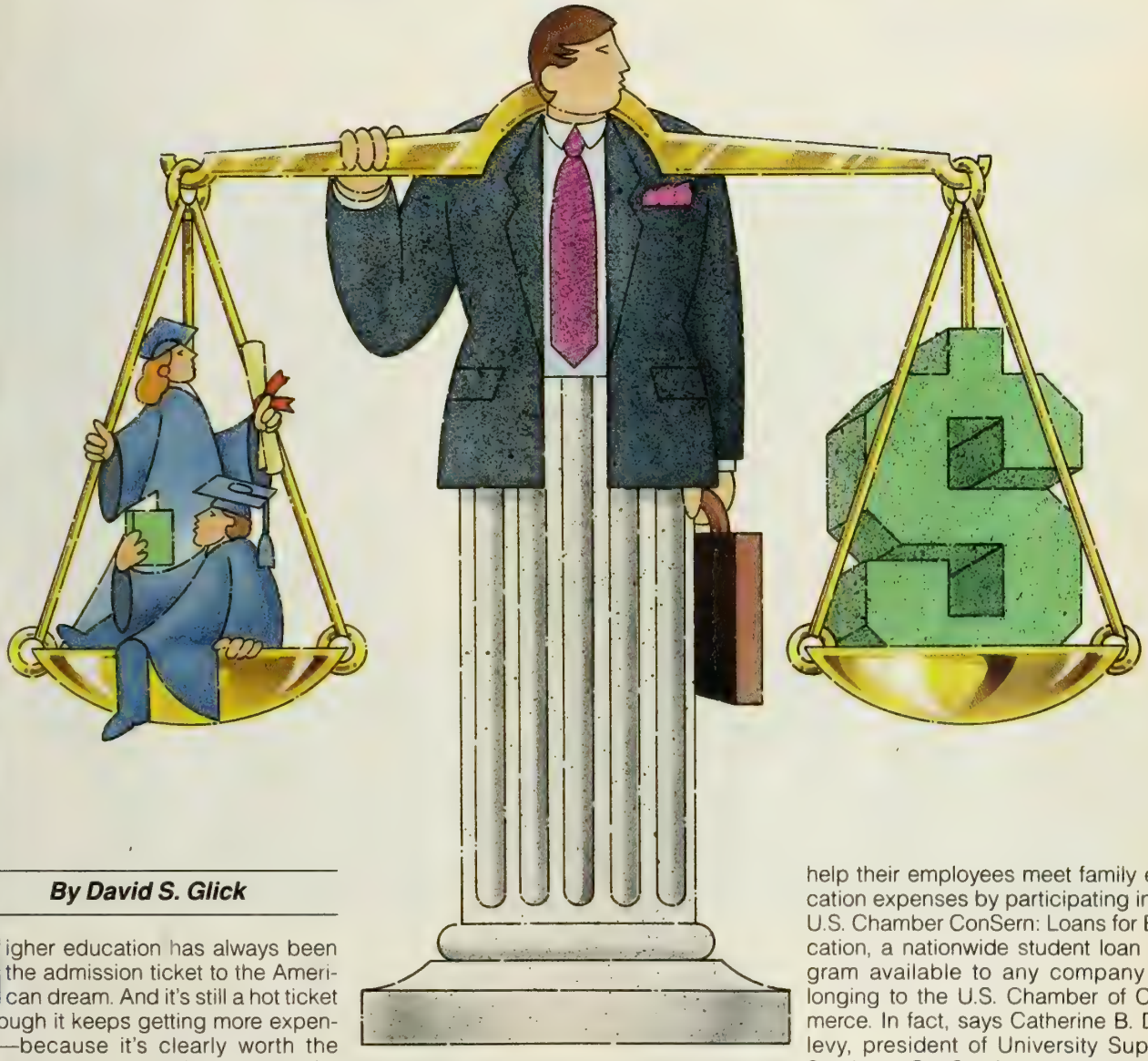
In January Hauptfuhrer made Oryx' boldest move yet—paying $1.1 billion for some British Petroleum properties, mostly in the North Sea. The move pushed Oryx' long-term debt to 59% of capital. But it moves Oryx overseas for the first time. Horizontal drilling was the key to Oryx' success in the Austin Chalk prospect; it hopes to use the same technique in North Sea fields.

Gone certainly are the old, bureaucratic ways. One California worker, on his own initiative, renegotiated the way Oryx pays federal oil royalties, saving the company about $35,000 a month. Asked why he hadn't done so previously, the man replied, "Before, nobody cared." Hauptfuhrer notes the lesson in all this: Give people a chance not just to do a job but to have some impact, and they'll really respond, "get on their roller skates, and race around to make sure it happens."

One thing that has happened is a big increase in earnings per share, up from 51 cents in 1989 to an estimated $1.70 for 1990, with cash flow climbing to $7.90 per share from $4.86.

Did the spinoff produce results? In spades. Oryx shares have doubled since the spinoff to a recent 50. Sun shareholders who kept both pieces of paper now have an asset worth $83 a share as compared with $54. ■

Financing Middle America's Dream: Corporate America Steps In



By David S. Glick

Higher education has always been the admission ticket to the American dream. And it's still a hot ticket though it keeps getting more expen-ve—because it's clearly worth the ice. Higher education is essential for :quiring the knowledge and skills eeded to get a good job and launch a ıreer. More fundamentally, it provides e intellectual underpinnings to help us nderstand the world around us as well the world of ideas," says the Rever-ıd John P. Whalen, former president of atholic University in Washington and ırrent chairman of University Support ervices, an organization that helps stu-ents finance their education.

Higher education is as critical for e nation's economy as it is for the indi-dual. Father Whalen adds: "We're com-g into an age where the real capital e're going to use is knowledge, not bricks and mortar. The country that can control information better is the one that is going to prevail. And the only way to get the work force necessary for the information era is by extensive education."

While few people question the value of higher education, many Americans are finding the price tag less and less affordable. However, as expenses have risen, American business has come forward to help a growing number of students finance their education with scholarships, loans, jobs and internships. Businesses of all sizes can help their employees meet family education expenses by participating in the U.S. Chamber ConSern: Loans for Education, a nationwide student loan program available to any company belonging to the U.S. Chamber of Commerce. In fact, says Catherine B. Dunlevy, president of University Support Services, ConSern's parent organization, "private sources of capital for student loans are really the wave of the future. Our program is structured to ensure available money for education separate from federal programs." (See page 8.)

"Higher education is absolutely crucial to the business community," says John Clendenin, chairman of Bell South and former chairman of the U.S. Chamber of Commerce. Adds George B. Harvey, chairman of Pitney Bowes Inc., "We look to higher education to prepare our work force with the knowledge, skills and abilities necessary to meet our customers' needs worldwide." Harvey

(continued on page 5)

ation managers

shows that 95 percent have gone on to college.

And there's BIPED Corporation's Office Technologies program, which we also assist. It's helping disabled persons gain employment in information processing.

Educational programs like these will soon be looking f your support, and their graduates will be coming to you for a jo

We hope that you will join us in making a streetwise decision.

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Networking The Education Archipela

By Dr. Richard Vigilante

You've heard this before, but we really are in the Information Age. Information-related jobs now account for more than half the American labor force and gross national product.

In meeting the demands of this information revolution, America's elementary and secondary schools have installed over two million classroom computers, one for every thirty students. Unlike the education technologies of the past—film, radio, television—that were largely passive and externally produced, the computer has given educators the first interactive, teacher-based instructional tool since the blackboard was introduced in the 1840s.

Despite this progress, schools are discovering the same limitations of independent, stand-alone computers that corporations found a few years ago. To ensure company-wide sharing of data and to support collaborative efforts among employees, American businesses have invested billions of dollars to develop their own telecommunications networks.

Today, more money is being spent on private networks than on the public telephone system. And increasingly, U.S. telecommunications is evolving into a patchwork of costly, redundant and incompatible networks—resulting in a society of information "haves" and "have-nots."

The relatively low investment in U.S. public telecommunications is a direct consequence of restrictive public policies on the federal level. The 1982 consent decree that broke up the Bell System in the name of increased competition prevents outright the seven regional telecommunications companies from offering information services or manufacturing telecommunications equipment. This is despite the fact that together these companies comprise more than half the asset base and work force of the U.S. telecommunications industry. Continuing congressional and judicial uncertainties about the proper role of these companies have undoubtedly inhibited domestic development of high-capacity public networks equal to those built by many corporations and foreign countries.

One clear beneficiary of a world-class public telecommunications network could be the 85,000 islands of instruction that constitute America's schools. Just for starters, a national digital network would enable schools to jointly develop curricula, bring instruction to the ill or disabled student, allow physics classes to learn from a Nobel Laureate, have students practice French with a class in Lyons and provide advanced training to the rural teacher.

While distance learning programs exist at some level in a number of the nation's wealthier school districts, certain obstacles prevent their becoming much more widespread. One such obstacle is the use of the modem, a device used to send and receive computer information over regular telephone lines.

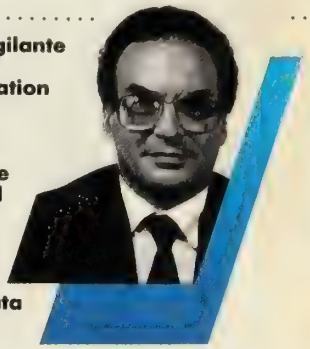
For the educational community, modems present three serious limitations: cost, complexity and capacity. A typical modem costs $150 and modems are currently used by about 6,000 schools. Equipping the remaining classroom computers with modems would cost more than $200 million. Modem users must also deal with often complex and incompatible hardware, software and transmission standards. And, most importantly, the capacity of today's public networks is such that a graphic image taking five seconds to display on a stand-alone computer can take ten minutes to send to another computer over a telephone line.

The upshot is that the regional telephone companies possess, but are currently prevented from using, the technical know-how necessary to create a digital network c of handling high-speed PC commu tions without modems and at affo costs.

Without significant investments i public telephone system, schools and users may pay higher prices for lo quality service. Distance learners of all may be denied access to educational ser that are widely available to students France, Japan, Great Britain, Germany many other countries.

Historically, government policies h fostered the growth of successive strate systems in the public interest, with cana railroads, electricity and highways. In tur these systems have stimulated econom development nationwide. If our children a to be educated citizens and competitors i the world economy of the 21st century America needs a similar resolve in advance telecommunications.

Through adoption of progressive, consumer-oriented telecommunications policy driven by the Federal Communications Commission, not the judiciary, we can encourage the investment necessary to stimulate economic growth at home, remain competitive abroad and create tomorrow's digital super highway for our school children and all Americans.



Richard P. Vigilante is director of the Information Technologies Institute at New York University. He has consulted and lectured on distance learning and is developing an on-line data network that will deliver professional education telecourses in information management.

In this first of a three-part series, NYNEX presents global telecommunications perspectives by leading experts.

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Street kids or streetwise business professionals?

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NYNEX® Foundation is doing more than just talking about it. We've joined with business, education and community leaders to support educational programs at all levels.

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For example, consider the MITES Program (Minority Introduction to Engineering and Science) for gifted disadvantaged high school students at M.I.T., which we support. A recent study

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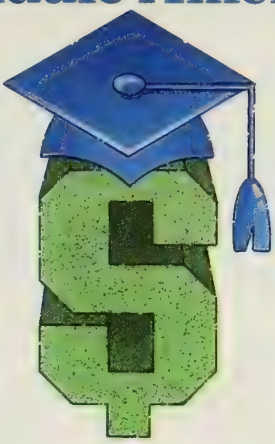

(continued from page 1)

and many other senior executives concur that helping finance education has proven to be a good investment because American business has a vital stake in developing an educated and productive work force.

Richard Lesher, president of the U.S. Chamber of Commerce, agrees. "We hear a lot about competitiveness.... One of the things that will help Americans be more competitive is more and better education. There is a great need for private sector initiatives for education that rely on private capital and not federal funds."

For the individual, education is also an investment in the future. Money spent on a college education generates dramatic returns in the form of higher income. Michigan State University's Career Development and Placement Services Office's 19th annual survey revealed that the average annual starting salary for a college graduate with a bachelor's degree in spring 1990 was $25,256, up 3.3% from a year earlier. The expected starting salary for those with a master's degree was $33,740, while those earning an M.B.A. could expect to begin work at $39,840 annually.

A Growing Wage Gap

In the 1980s, college graduates' real wages rose nearly 8%, while high school graduates' standard of living fell for the first time since World War II. According to the U.S. Department of Labor, the lifetime earnings of college graduates are, on average, $640,000 more than the earnings of those who are not college graduates.

The gap between these two groups has spurred more and more high school graduates to go on to college. During much of the 1970s, half of U.S. high school graduates went on to college. The proportion of people attending college has been rising rapidly since 1982 and is now at nearly 60%. As a result, some 25% of the current U.S. work force is composed of college graduates—a higher figure than any other industrial nation—and that figure is rising. More and more employers are requiring college degrees for a wide range of jobs.

In an increasingly high-tech world, a strong back and a willingness to work may remain admirable attributes, but they are no longer sufficient for personal success or national competitiveness. As John V. Roach, chairman of the board of Tandy Corp., notes, his company, which markets Radio Shack and Tandy products, "must compete with the best electronics companies in the world. In order to do that, we need technologically competent engineers, programmers, technicians and sales personnel." That's not just the case with high-tech companies. "There's no question that going forward an educated work force is absolutely required by the country," says Father Whalen.

Fortunately, the nation has one of the world's leading systems of higher education. Hundreds of thousands of foreign students attest to that every year when they come here for college and graduate studies. American higher education is noteworthy not only for its overall quality, but also for its diversity and openness. In many European countries, young people take examinations that will determine with finality whether they will go on to college or be shunted into blue collar training programs. They get one chance at a good education, and that's it.

By contrast, the American higher education system is much more accessible and diverse. There are hundreds of colleges and universities that offer varied emphases and specialties. And there are multiple entry points: Students who don't do well in high school may still get into college somewhere, and if they work hard, they can transfer to a more prestigious institution or get into a good graduate school. If students lack the interest or drive at age 18, they can start college at 28, 38—or even 68. In fact, the fastest growing segment of the U.S. college population is composed of those well beyond the traditional 18- to 22-year-old age group.

An Education Meritocracy

This diverse system is a meritocracy: If you've got the ability, you can generally get into the school you want. But there is

The U.S. Chamber of Commerce: An Abiding Interest in Education

Since it was created more than 75 years ago, the U.S. Chamber of Commerce has earned a reputation as a highly effective advocate of the business point of view in public policy debates. It is also regarded as a valuable source of assistance to its membership, which includes companies of all sizes.

The U.S. Chamber of Commerce has long had a strong interest in education. "There are few issues that transcend business concerns about education in this country right now," says R. Bruce Josten, group vice president of the Chamber. "The business community is spending about $30 billion a year in training, retraining and remedial training."

The ConSern loan program is one way Chamber members get involved in education. (See page 8.) In addition, the U.S. Chamber has launched a business-education action plan to bring together business leaders with educators, government officials and community leaders to improve the quality of education. The Chamber also sponsors "Enterprise is...America," which teaches secondary school students how the American economic system operates.

Josten says the Chamber's broad interest in education is easy to explain: Besides being parents and residents of communities, Chamber members are also employers, and in that capacity, he notes, they're "the biggest end user of the education system's products—the students who come out of the schools."

Financing Middle America's Dream:

a price to pay. For more and more people, Father Whalen says, "There is a gap between the resources an ordinary family has and the costs of sending children to college."

Begin at the Beginning

While higher education is critical in developing occupational and professional skills, many leading American corporate executives have grown increasingly concerned about the inadequacies of the nation's primary and secondary schools, the base on which colleges and universities must build. Many U.S. executives have reached the same conclusion as *Financial Times*, the distinguished British newspaper, which said recently: "If the U.S. does not reform its public education system, it will cease to be a competitive force in the world economy." As a result, business has become increasingly involved in elementary and secondary education.

Companies now provide a wide range of resources, including equipment and supplies, as well as grants, and business executives have become involved in advising school boards and school administrators around the country. Moreover, many companies encourage their employees to become involved in tutoring and advising school children.

Literacy Is the Key

Because of the diverse, decentralized structure of American education, companies interested in helping can carve out an area where they think they can make a difference. At Pizza Hut, for example, executives concluded that literacy was the key that unlocked the rest of education. So, since 1984, Pizza Hut has been sponsoring the BOOK IT! National Reading Incentive Program. Some 15 million elementary school students in 630,000 classrooms are expected to participate in the 1990-91 reading incentive program.

Pizza Hut has also worked with the Library of Congress in sponsoring the "Year of the Young Reader—1989" and the National Young Readers Day. This year the U.S. Conference of Mayors endorsed the event. "At Pizza Hut, we are committed to promoting youth literacy," says Steven S. Reinemund, president and chief executive officer. "By stimulating children's interest in reading and stressing its importance in everyday living and personal development, we believe that we can help reduce the number of future adult illiterates."

Creating Partnerships

Other companies have taken different approaches. Some companies have emphasized the key role of good teachers and administrators. That's why Tandy Corp. rewards excellent science and mathematics teachers. And that's why Whitman Corp., based in Chicago, provides grants of $5,000 each year to 20 of the outstanding principals in the Chicago public school system, as chosen by an independent panel of local business, community and education leaders. James W. Cozad, chairman and chief executive of the food products company, says, "We established the Whitman Award so the community wouldn't lose sight of the fact that there are many good men and women in the school system trying to solve its problems. They deserve support and encouragement, not criticism and complaints."

Ted Kimbrough, general superintendent of the Chicago Public Schools says, "We have a wonderful partnership with Whitman. Private resources are being directed to help solve a problem in the schools." When business gets involved and focuses its skills and resources on education, he says, "Everyone, especially the kids, benefits."

Higher education is costly because it's a labor intensive enterprise. Few professors are getting rich on teaching salaries, but it takes a lot of them to provide a well-rounded education. The latest in computers and science labs and medical education equipment doesn't come cheap either. Federal and state governments have invested substantial sums in assisting students. The billions of dollars the federal government spends on higher education each year help some 5.5 million students. But that leaves 8 million students who must find the resources for their education. Eight million times an average of $8,000 yields a price tag of $64 billion in annual college costs.

Where can it come from? For millions of middle-income Americans, it's clear they have to save as much as they can for as long as they can in order to pay for their children's education. Long-term planning is critical. The problem is not the total amount that a college education will cost, but the concentrated nature of the expense—the need to write some big checks every semester. These families face the same problem in paying for the other basic element of the American dream, a home of their own. "Most people who buy a house couldn't come up with all the money in one or two or three years—it has to be spread over a number of years," Father Whalen says. He notes that borrowing to buy a house is standard procedure, and borrowing to finance an education is increasingly seen as an appropriate and attractive alternative for many families.

MBIA (Municipal Bond Investors Assurance Corp.) has been helping expand the marketplace for student loans. Executive Vice President Robert R. Godfrey says, "We have a special unit for higher education issues" that helps education agencies sell bond issues to raise money they lend to students. MBIA insures these issues, giving the issuer the benefit of its Triple-A credit rating, making it possible to sell the bonds at a lower cost. "We're cutting the cost of the financing, and the savings in interest costs is being passed on to the borrower," Godfrey notes.

The resources for education have been significantly expanded in recent years by the growing involvement of the

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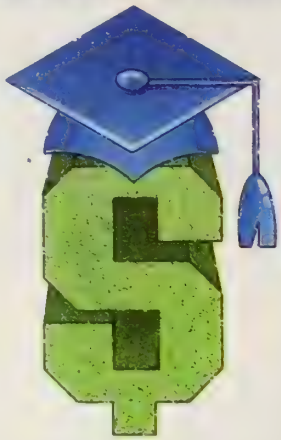
Financing Middle America's Dream:



business community. The nature of business' role varies: Some companies offer scholarships to employees and their children as an employee benefit; some provide grants to colleges and universities for financial aid to students; some companies make direct grants and loans to students; and some businesses do it all.

The Federal National Mortgage Association—Fannie Mae—has, for instance, chosen to work closely with a neighboring school to encourage students to continue their education. In October 1988, it established the Futures 500 Club with the H.D. Woodson High School in northeast Washington. As Janice Daue, Fannie Mae's manager for corporate relations, explains, "Each student who earns all A's and B's is entitled to $500 per semester for college or postgraduate education from Fannie Mae. In addition, what we find just as exciting is matching Fannie Mae employees with students. Employees act as volunteers and do everything from helping students with college applications to taking them to cultural events. They show the students the world of work and say 'You can do it.'"

Focusing on Relevant Fields

While many companies make donations wherever they have local facilities, others focus on fields relevant to their activities. Tandy Corp., for example, finances the Tandy Technology Scholars program, which provides cash awards to 100 outstanding teachers and 100 outstanding students in science and mathematics each year.

Some companies have a range of approaches. Pitney Bowes Chairman George B. Harvey notes: "Pitney Bowes provides funding for colleges and universities as unrestricted support and for engineering scholarships for women and minorities. In an effort to increase skill levels in English and math, the company supports special programs at Norwalk Community College and Norwalk State Technical School. The company contributes to the New England College Fund and the United Negro College Fund." In addition to its own donations, Pitney Bowes matches employee gifts to higher education on a dollar-for-dollar basis and provides internships for college students.

IBM operates one of the broadest and most varied programs. Last year it made philanthropic contributions totaling $135 million, more than double the donations of the second-ranking company. Its support for educational projects reached $81 million. "IBM's interest in education goes back to our

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Participation in the program is open to any company that is a member of the U.S. Chamber of Commerce. Member companies can join ConSern for as little as $25 a year—and even that's a tax-deductible business expense. When a company signs on, a corporate accounts manager from ConSern provides the employer with informational brochures and application packets for distribution to employees. From then on ConSern handles all administrative responsibilities. In addition, the company has no liability for the loans.

"At ConSern, our internal structure is organized to support the needs of corporate America and its employees," says Diane Fitzgerald, vice president for marketing. She adds, "Every member of our client relations staff is a trained professional with customer satisfaction as the number one objective."

ConSern loans may be used by employees or their families for private secondary schools and for study at any accredited college or university. An employee can borrow up to $25,000 each year and up to a total of $100,000. In addition, the borrower can take up to 15 years to repay the loan. The principal can be deferred while the student is still in school, up to a maximum of four years.

Interest rates on ConSern loans are significantly below most unsecured personal loan rates. ConSern can offer these lower rates because its parent organization, University Support Services, a non-profit organization, borrows large amounts in the commercial paper market at interest rates much lower than an individual could obtain directly.

"ConSern does a good job of meeting the needs of both students and employers," R. Bruce Josten, group vice president of the U.S. Chamber of Commerce, notes. "When we started with ConSern less than three years ago, we had 14 companies participating. Recently we crossed the threshold of 13,000 companies, and the program continues to grow."

For information about sponsoring ConSern, or for loan information, call 1-800-SOS-LOAN.

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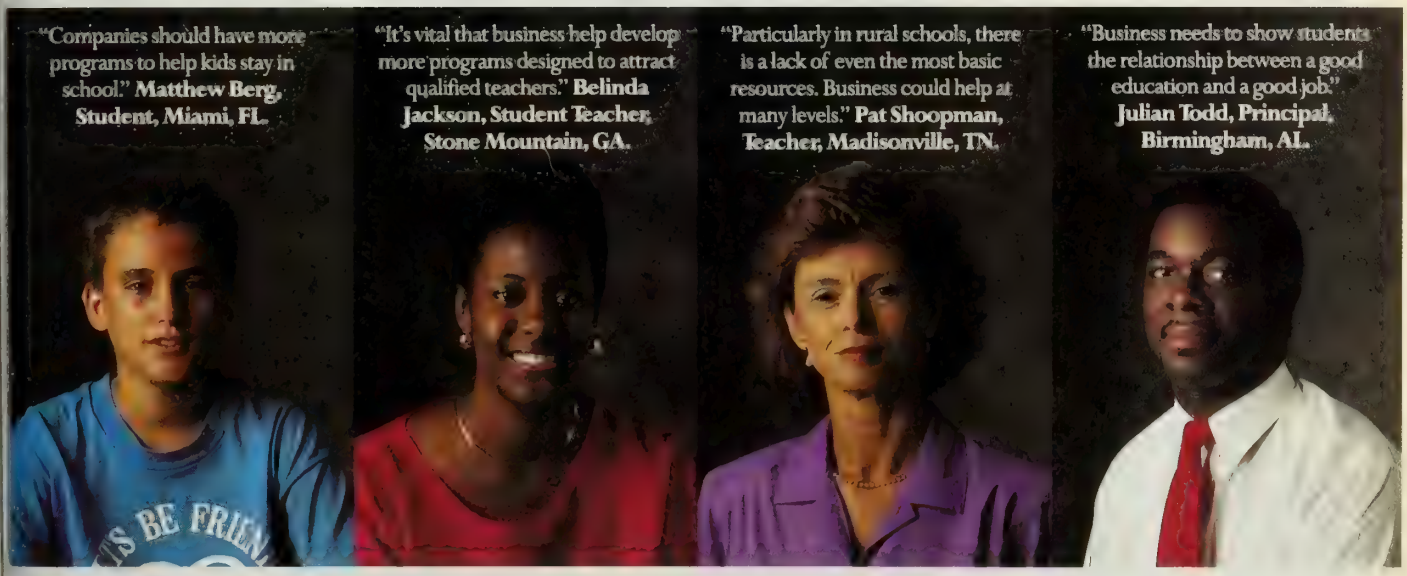

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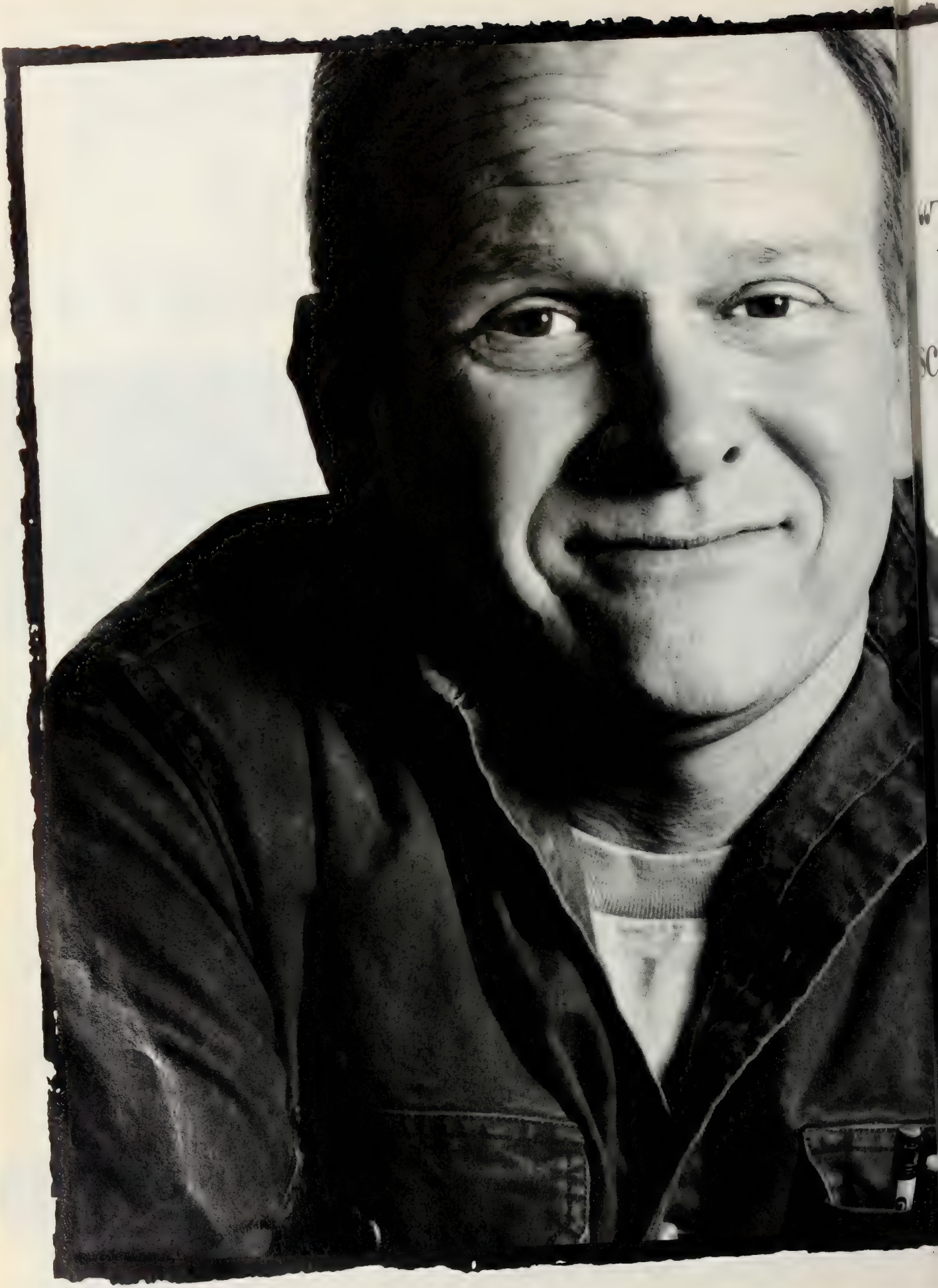

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"The idea of computers in the factory used to scare the daylights out of me. Now I run one."

"I figured I'd get burned either way—computers show up and I get fired, or computers don't show up and the plant closes down.

"But what happened is, they retooled the plant and while that was going on they sent me to school, to an IBM-sponsored course at the community college.

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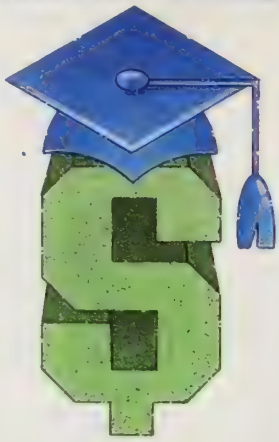

founding, and some of the programs were started many years ago," notes John Porter, director of university relations at IBM. "It starts, really, with a company philosophy that education is extremely important to us, and we have seen this grow into partnerships with universities. It's not just IBM. The high-tech industries are evolving toward an era of partnerships because we have important reasons to be working with one another. We need access to new technology and ideas, and the universities, at least in this country, are the primary sources of basic research. Secondly, we need college graduates to hire who are as technically up-to-date as possible. Also, in recent years, we have been interested in greater participation of underrepresented groups, including minorities and women, and universities can provide that."

Meeting Diverse Needs

IBM helps students through a variety of programs, including its pioneering Watson Scholarship program, a 33-year-old program named for company founder Thomas J. Watson Sr. IBM is also one of the founders of the National Hispanic Scholarship Fund and the National Action Committee for Minorities in Engineering. In addition, IBM dispenses funds through the National Merit Scholarship Program. "Over the years, we have evolved from rather general, unrestricted support to the point today where the majority of our support is focused on a problem or an issue," Porter says.

In contrast to the centralized approach taken at IBM, other companies dispense educational aid at various points in their organizations. NYNEX, for example, offers funds through the corporation as well as through the NYNEX Foundation and its New York Telephone and New England Telephone operating subsidiaries.

NYNEX executives take involvement with education personally. The company honored its former chairman by creating the D.C. Staley Scholarship, given to a student of engineering at the Hulman Institute of Technology in Terre Haute, Ind. New York Telephone has an extensive program of grants to colleges in New York state; its President and Chief Executive Officer, Frederic V. Salerno, agreed to become chairman of the board of trustees of the State University of New York (SUNY) in March 1990. The 64-campus SUNY system is the largest in the nation. Many other NYNEX employees give of their time as well as money. And Thomas Skrobala, a program officer at the NYNEX Foundation, notes, "We also support higher education through matching giving. Twenty percent of our giving is matching employee gifts to higher education."

A Lasting Value

There's no question that education is a big ticket item in most households. Few things most families will pay for will cost more, but few things will be worth more. If the aesthetic and intellectual values of higher education aren't convincing, the job market brings home its practical value immediately.

But education benefits more than the student. All Americans are better off when those manning the ramparts of the economy have well developed skills and minds. That's the only way the U.S. can compete with rapidly growing foreign economies. And all Americans are better off when their fellow citizens are well educated, independent thinkers. ■

David S. Glick is a freelance writer based in New York.

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FMC stayed out of the takeover game and yet remained independent. In the process it rewarded handsomely both its shareholders and its managers.

Marching to its own drummer

By Marcia Berss

When he retires next year at age 65, Robert Malott will leave behind a record of service to shareholders few bosses of public companies can match. As chief executive of Chicago-based FMC Corp., Malott has faced a difficult task: This $3.4 billion (revenues) maker of chemicals, military vehicles and machinery is in three nongrowth businesses, and its revenues have been virtually flat since the early 1980s. Despite this, Malott has managed to improve operating profits and return on capital. Shareholders have been handsomely rewarded with a stock that has roughly quadrupled over the decade.

Malott recalls that when he took over in 1972 he inherited an outfit "that had grown too rapidly, [made] too many acquisitions." Food Machinery & Chemical Corp. (later changed to FMC) was founded by Paul Davies, who built his father-in-law's food machinery firm into a growth conglomerate of the 1950s and 1960s. Davies met Malott when Malott was at Harvard Business School, and in 1952 Davies started him as an assistant to the chemicals division chief. Davies retired in 1966 and FMC ran through two chief executives in six years before Malott, then 46, was handed the top job.

When Malott took over, FMC, like many conglomerates, was being dragged down by poor performers in its portfolio of businesses. In the early 1970s return on equity was a weak 6% to 8%.

Malott sold some operations, such as fiber production. Then he tackled what he concedes is still FMC's basic problem: its "dull"—low-growth, unglamorous—businesses.

He stripped the company down to three core businesses—industrial chemicals, defense equipment and machinery. The link: low-cost production versus innovative technology or creative marketing. In industrial chemicals, for example, FMC is the leading producer of natural soda ash, yielding a big cost advantage. FMC's defense unit makes the Bradley Fighting Vehicle for the U.S.; new customers include hot spots Saudi Arabia and Turkey. Its machinery division produces everything from citrus juice squeezers to oil wellhead equipment.

The surviving businesses had this going for them: Each had a strong market position and threw off a lot of cash without requiring heavy capital outlays. And FMC's long-term debt was negligible.

The logical thing would have been to grow through acquisitions, using FMC's healthy cash flow and borrowing power. But Malott let common sense guide him rather than sheer greed for growth and dealmaking. With junk bond financing on the rise, prices for acquisitions had risen to silly heights; a result is that busted deals now litter the corporate landscape. Says Malott: "We could never find a major acquisition rewarding for our shareholders, and so we did what we felt was in their best interest, which was not to grow."

As a consequence, by 1984 FMC was a sitting duck for any of the Drexel-financed predators prowling the corporate woods. Clearly, FMC had more capital than it needed. And its stock, selling near book value, was a tempting target.

Malott made a tough but sensible decision. Why let a predator get his hands on all this money? Why not give some of the surplus back to

Robert Malott, FMC's chief executive
Tackling "dull" low-growth businesses.

Paul Merideth

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shareholders? In 1984 the FMC board tendered for over 20% of FMC stock, using cash. That sent the stock up, but the company was still vulnerable. In 1986 FMC forestalled the takeover artists by, in effect, buying itself out. Borrowing against its own assets, it raised $1.8 billion and used the money in a complex deal that enriched shareholders, enhanced management's stake and maintained the company's independence.

Here's how it worked. About 82% of the shares belonged to the public, the rest to management and insiders. The public shareholders were given $80 a share in cash—this for a stock that had sold for $45 a few years earlier—and retained 65% ownership. The insider shareholders got no cash but had their share in the company doubled to 35%.

Thus the deal not only captured the company's entire value for its shareholders rather than for predators but also accomplished what a good leveraged buyout always accomplishes: It gave management a major share in the business. The 15% stake owned by management and insiders was worth just $210 million in 1984; today that stake is over 30% and its worth $348 million. Malott's 570,000 shares alone are currently worth about $19 million.

FMC's Paradise Peak gold mine
This time, they kept it all.

Now, back to running the business. Since the recapitalization FMC has worked down debt to $1.4 billion, increased research spending to 4.3% of sales from 3.7% and stepped up capital outlays. Along the way Malott even made small acquisitions.

He also expanded the company's small stake in gold mining. FMC found gold in the early 1970s when hunting for antimony, a chemical used as a flame retardant. The company had no experience in gold mining, so it sold 70% of its Jerritt Canyon find to Freeport-McMoRan Gold. Says Malott: "In retrospect, that was a mistake. We should have taken the risk, developed the technology and kept the whole thing."

In the mid-1980s FMC found gold in Paradise Peak; this time it kept it all and last April bought Meridian Gold from Burlington Resources in a stock deal worth about $88 million. In 1987 Malott put all the gold holdings into a new company, FMC Gold, listed on the New York Stock Exchange; FMC owns 89% of its 65.5 million shares. Gold is now 25% of income, offsetting defense earnings, which have been in a decline since 1984.

Gold is a good business for FMC but not a stable one. Production costs ($200 an ounce) are up this year as the company must dig deeper for new finds. Also, FMC hedges most production by selling forward 18 to 24 months; this practice earned it $480 an ounce when gold went for $380 in 1989, but with gold prices rising, FMC is committed to selling current production at last year's lower prices. Operating earnings at FMC Gold were down 24% in the first half of 1990.

FMC's earnings prospects, however, are helped this year by the cornerstone industrial chemicals unit (29% of sales, 35% of income). The company is big in phosphates for detergents, which are taking a beating from environmentalists. It is also, however, number two in the world in soda ash, used in glassmaking. C.J. Lawrence securities analyst Don Pattison estimates FMC's production costs at $40 a ton, versus $190 a ton for the world leader, Belgium's Solvay. FMC has been barred from Europe by an $85-a-ton duty, but that may soon be lifted as part of trade negotiations. And the company is North America's second biggest (behind Du Pont) in hydrogen peroxide, which chemical men think will see double-digit growth thanks to rising demand from pulp and paper makers, who are rejecting their old bleaching agent, chlorine, because of environmental problems.

The machinery division (23% of sales) is also looking up. This division has been barely profitable since 1983 because of a heavy concentration on oil production equipment. Probable improvement there, coupled with lower interest costs resulting from the lower level of debt, should boost FMC earnings about 7% above 1989's $4.35 a share, which was, in turn, 20% above 1988 results. Not a bad showing for a company in low-growth businesses and with lots of debt.

If there is one piece of unfinished business before Malott turns in his baton next year, it is to try to get revenues growing. Prices are coming down in the acquisition market, and Malott would dearly love to enhance FMC's chemical business with a good acquisition—not a giant one but a sizable one. "If some great opportunity comes along; I'm not dedicated to getting back to a 30% debt/equity ratio," he says. He figures he has another $500 million in borrowing power.

Absent an acquisition, Malott worries that "we will be back in the same soup." Meaning that debt will be way down, cash flow high and the company might again be a target for acquisitors. What then? The betting is that if no reasonably priced acquisition comes along, Malott's heir, President Robert Burt, will do another leveraged buyout—this time, buying out public shareholders entirely.

As for Malott, he leans forward in his chair and says, "We've done what we said we would. We've increased returns and did not overpay [for acquisitions]. If you don't want people who run your money that way, go bet on RJR Nabisco." ■

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Faced with the failure of socialism, some Christian thinkers argue that capitalism has failed just as badly. They refuse to understand why socialism failed.

THE ECUMANIACS

By Michael Novak

Ecumania—a disease causing a Christian to believe that every other church is better than his own. People subject to ecumania seem also vulnerable to the belief that every other social and economic system is better than their own.

Recently I came upon an article by the director of the Subunit on Church & Society of the World Council of Churches for whom the collapse of Marxism has created "a growing ideological crisis." This crisis arises because, while communism has failed, he sees capitalism as having failed equally. He writes: "Listening to the victims of capitalist systems, one finds that many of their cries echo those of the people who have been oppressed by Marxist approaches."

Thus, this troubled church staffer mourns the collapse of Marxism: "Marxism, after all, has functioned as the great restrainer of capitalism." And he now worries night and day about a new danger: "The new temptation is to believe that capitalism—and an unfettered market—can solve human aspirations for economic and social liberation." (Unfettered is a word only anticapitalists use.)

The author of this analysis, Wesley Granberg-Michaelson, urges the ecumenical movement "to take up again its search for new models of societies." Here we go again. These model-spinners never seem to learn any lessons from the failure of their old models.

Granberg-Michaelson sounds positively nostalgic when thinking about socialism as "the ideal that societies can be organized according to principles other than those that maximize gain for a privileged few." He also sees in Marxism "a philosophical alternative that has challenged people to place their hopes and efforts with the aspirations of the poor."

I've news for this gentleman: The designers of America's system achieved all this, and more.

They created an opportunity society in which the poor moved out of poverty by the millions, attaining levels of well-being beyond the imaginations of their grandparents. The Statue of Liberty beckoned to all the world's poor—but not that they should stay poor.

This World Council of Churches writer makes two fundamental mistakes. First, he misreads Adam Smith when he writes: "Adam Smith, of course, argued that it was precisely the exercise of an individual's selfish pursuits which, when channeled by the 'invisible hand' of the market, led to the well-being of the whole society." Nonsense. Smith didn't say "selfish," he said "self-interest." The self-interest Adam Smith discussed is far from being the same as "selfish pursuits." The interests of the self may be grand, wise, communitarian, selfless, heroic, farseeing, and they may display many other noble qualities; they are not always selfish.

Granberg-Michaelson comes to a bizarre conclusion: "Today it is becoming more important to recognize the similarities between these two systems [capitalism and socialism], rather than their differences." He seems to believe that Switzerland and Lithuania are "similar systems," that Poland is as free and prosperous as France. Only in the "models" of the World Council of Churches are capitalism and socialism equivalent.

We should all pray daily for the advance of realism in the WCC. To do our part, we should establish some workshops for staff members in practical economics.

One other thing bugs me about Granberg-Michaelson's way of thinking. He claims to be siding with the world's poor, but fears mightily that if "the levels of high consumption now practiced by one-quarter of humanity are adopted by all humanity," this "would result in worsening by 20 times the present damage to the world's ecological life." He suggests to the poor that they should remain poor so that he can realize his own vision of ecological purity. He shows no confidence at all in the human creativity that is now being summoned forth to protect and to improve the environment.

Finally, our analyst in Geneva seems to think that traditionalist Third World countries that repress dissent are capitalist. In fact, very few of those countries are. Yes, they recognize private property, markets and profits. But these three characteristics are as old as the Bible. Private property, markets and profits are precapitalist.

A few Third World countries do actually follow "the capitalist model"—setting in place the legal and social conditions for invention, enterprise and opportunity for the poor. But they quickly become so successful that, alas, they are no longer referred to as Third World. Their growing middle class soon demands democracy, too, and pluralism. That is what "democratic capitalism" means. In rejecting capitalism, the World Council of Churches is also rejecting the foundations of democracy. ■

Philosopher, journalist and ex-U.S. ambassador Michael Novak directs social and political studies at the American Enterprise Institute in Washington, D.C. His book The Spirit of Democratic Capitalism *has been widely translated around the world.*

Five years ago the Pitcairn family bailed out of their 107-year-old investment in Pittsburgh's PPG Industries. Then the company took off, and the heirs are returning.

Buying back the family jewels

By Alyssa A. Lappen

IT'S OFTEN HARD for a family to know when to get out of an investment it has held for years. Particularly if it's a company started by a relative more than 100 years ago.

That's what faced the heirs of John Pitcairn, who cofounded Pittsburgh Plate Glass back in 1883. In 1985 they still owned more than 15% of PPG Industries, a stake worth hundreds of millions of dollars. But more than money was at issue. "We had a long tradition of looking at glass windows and paint on cars and houses and taking pride in the fact that our great-grandfather had started it all," says Dirk Jungé, 42, vice chairman of the Pitcairn family money management concern that watches over the family's estimated $1 billion fortune.

But the 353 family members all had different financial needs, which were hard to meet with their monolithic investment. And though the Pitcairns hadn't any quarrels with management, PPG was an old-line industrial behemoth peddling some $4 billion in cyclical commodity products. So the Pitcairn heirs reluctantly sold their stake back to the company for $530 million.

In retrospect, maybe they should have kept the stock in the family. Not only did they reduce their capital by some $100 million paid out in capital gains taxes, but PPG's sales have reached nearly $6 billion, earnings have grown more than 50%, to $465 million last year, and PPG stock more than doubled before falling back a bit in the current market to a recent 44⅛. Today the Pitcairn stake would be worth almost $1 billion.

The fellow who gets much of the credit for the company's performance is Vincent Sarni, 62, who was named chairman a year before the heirs sold out. At the time he took over in 1984, Sarni, the son of Italian immigrants, had spent 16 years with the company, rising from a marketing vice president in 1968 to chemicals head in 1975 and vice chairman in early 1984.

Sarni knew the company intimately. He saw its problems. But he also saw its potential—if he could add new, higher-margin products, build overseas sales and halt the creeping Parkinsonian bureaucracy that was stifling the company's ability to react to challenges.

These goals were printed in an unimposing-looking little pamphlet dubbed "Blueprint for the Decade," which Sarni distributed to every PPG employee. He then began disseminating these ideas personally on trips to PPG's 75 major plants.

At first many old PPG hands didn't take him seriously. They soon learned otherwise. It was change—or get out. In 1987, for example, Malcolm Slaney, a PPG vice president, retired after a disagreement over Sarni's new participatory style. When the company's vice chairman and president retired in 1988, Sarni didn't replace them, eliminating an entire level of management. Overall, he's cut the

Dennis Marsico

PPG Industries Chairman Vince Sarni
It was change—or get out.

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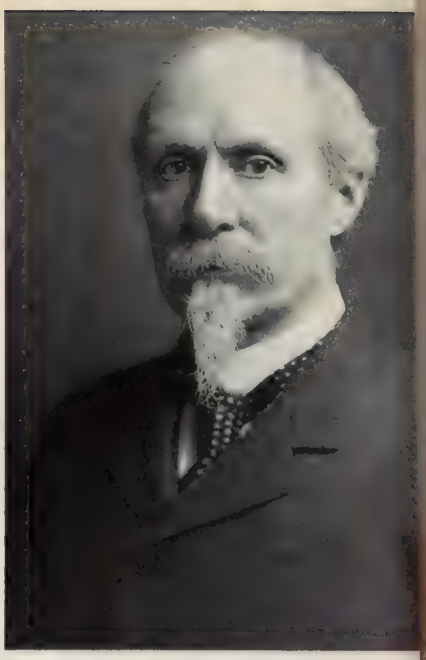

Founder John Pitcairn
The family is buying PPG again.

work force by nearly 8%, to 35,000. Several middle- and upper-middle level managers are gone.

Like a prime minister shuffling his cabinet, Sarni moved his major division heads to other divisions, providing new blood to tired operations. Corporate planner Richard Rompala, 43, took charge in chemicals. Chemicals head Robert Duncan, 51, moved to glass. Glass man Eugene Mosier, 51, took over in coatings and resins.

"Any time you take a seasoned executive away from something he knows like the back of his hand, there's a risk," Sarni notes. "But we wanted the groups to get new leadership." Whoever performs best has a good shot at Sarni's job.

The shuffling has already paid off. Take chemicals. High-margin products like silicas and swimming pool chemicals already account for a quarter of that group's $1.2 billion in sales. But Rompala, a gregarious chemical engineer and former Olin manager, wants the ratio to rise to 50%. So in 1988 he sold his sluggish agricultural chemicals businesses and acquired a fast-growing business in surfactants—slippery ingredients for everything from lipstick to kosher foods. He's also launched a joint venture with a French eyeglass firm to push a new PPG plastic that changes color in different lights and protects against ultraviolet rays. Such worldwide expansion, along with the weak dollar, is helping to increase PPG's foreign sales. In the last five years, sales outside the U.S. have grown by 50%.

The Louisianan running the glass

ographed in Woodstock, Vermont

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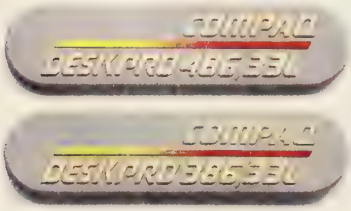

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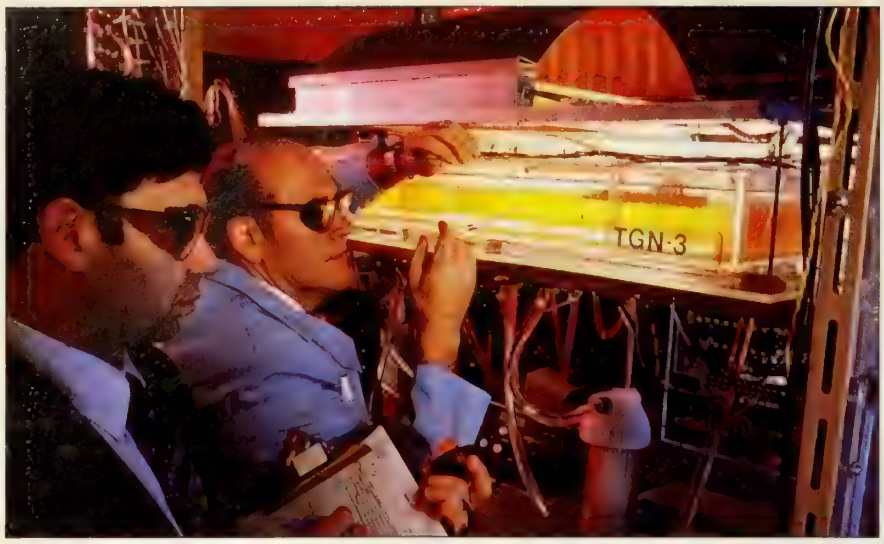


Model fiberglass furnace at PPG's research center near Pittsburgh
Sarni plans to keep right on spending.

business, Robert Duncan, has a laid-back style, but don't underestimate him. In the past two years he's rebuilt four furnaces, opened three new U.S. plants, started joint ventures in Venezuela and Taiwan and bought Silenka, a European fiberglass maker.

Half of PPG's $2.3 billion in glass sales still go into construction and new autos, industries that have been sluggish for months now. But here, too, PPG's strategy is to innovate continually. Duncan's group launches around 25 new premium-priced goods each year—things like heat-absorbing glass and high-strength fiberglass for use in fiber-optic cables or replacing metals in storage tanks and pipes; in several areas, PPG is winning business from steel companies. Duncan has also expanded the distribution of automotive glass replacement products, a wise move should financially strapped consumers keep their old cars longer.

PPG's biggest success may be in paints and resins. There, straitlaced Harvard M.B.A. Mosier has opened 10 plants near captive North American automakers since 1987. PPG now supplies the big three U.S. automakers—as well as all the Japanese transplants in the U.S. and Europe—and is extending its reach into auto interiors and aftermarkets, too.

In the last two years PPG has spent almost $2 billion on research and development, capital improvements and acquisitions. But total debt remains a manageable 40% of capital; with $750 million in yearly cash flow, Sarni plans to keep right on spending.

"We're looking for technology, products or market share to blend with our current businesses," he says. "If there's a recession, of course it will affect us," he adds. But the betting is that PPG will continue to increase its shares in various markets and that its sales and earnings will fall but slightly, and perhaps not at all.

What of the Pitcairn heirs? Impressed by Sarni, their family business has started buying PPG stock again; the company is now among the family's top ten holdings of publicly traded companies. Too bad they pulled out in the first place and paid all those capital gains taxes. ■

Can the company that makes and markets apparel for Ralph Lauren and Yves Saint Laurent do well by Arrow shirts and Gold Toe socks? Maurice Bidermann paid $410 million to prove that it will.

Mass meets class

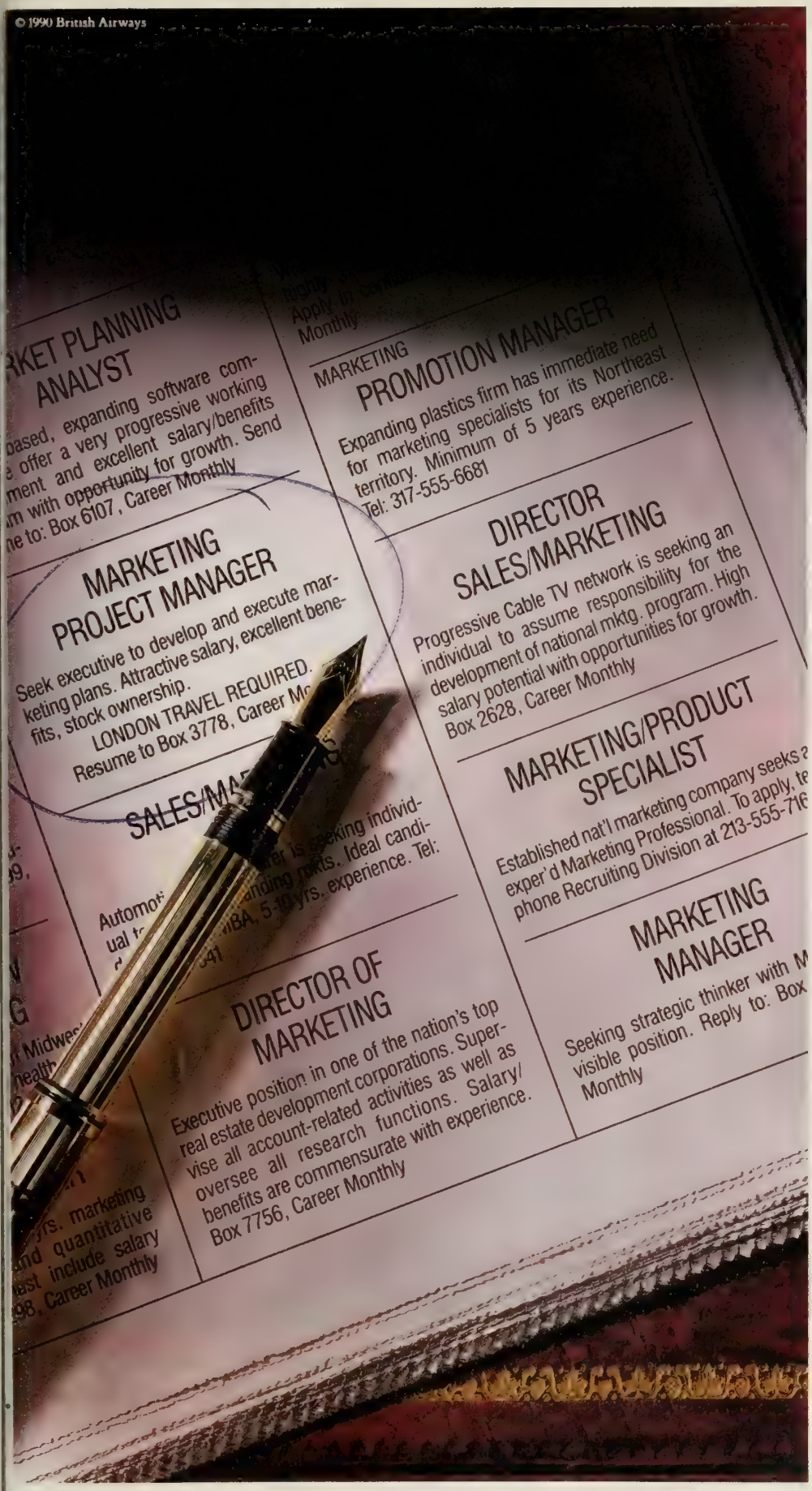
By Katherine Weisman

WILL $10 Gold Toe socks and $20 Arrow shirts really mix with $590 Ralph Lauren cashmere sweaters and $495 Yves Saint Laurent suits? That's just one of the breathless questions swirling around the volatile fashion business these days, as Seventh Avenue tries to figure out why Maurice Bidermann agreed last March to pay West Point-Pepperell $410 million for Cluett, Peabody. (West Point-Pepperell was an important part of William Farley's fast-unraveling empire.)

On the face of it, the deal was a bit odd. Cluett, Peabody—which has had three owners in the past five years—is best known for its mass-marketed Arrow shirts and Gold Toe socks. Arrow has about 45% of the U.S. men's shirt market in the $20 to $25 range. Gold Toe has about 40% of men's socks in its price segment. Together the lines accounted for about 75% of Cluett's 1989 sales of $620 million. By contrast, $550 million (sales) Bidermann Industries, the American subsidiary of Paris-based Bidermann S.A., is known for the licenses it has held over the years from such upmarket French designers as Karl Lagerfeld and Yves Saint Laurent, as well as Calvin Klein and Ralph Lauren.

Why did the purveyor of class buy one of mass? Because as Bidermann painfully learned a few years back, fashion can be a dangerously volatile business. He hopes to bring to it the stability afforded by moderately priced shirts and socks.

Bidermann S.A. was founded in the mid-1920s by Georges Bidermann, a distant uncle of current chairman Maurice Bidermann's. By 1952, when Maurice joined the company, it was a small clothing manufacturer. He took over in 1956, and expanded capacity by buying plants throughout France. Bidermann, after working briefly with Pierre Cardin as a manufacturing contractor, opened a New York office in 1973 and launched the Yves Saint



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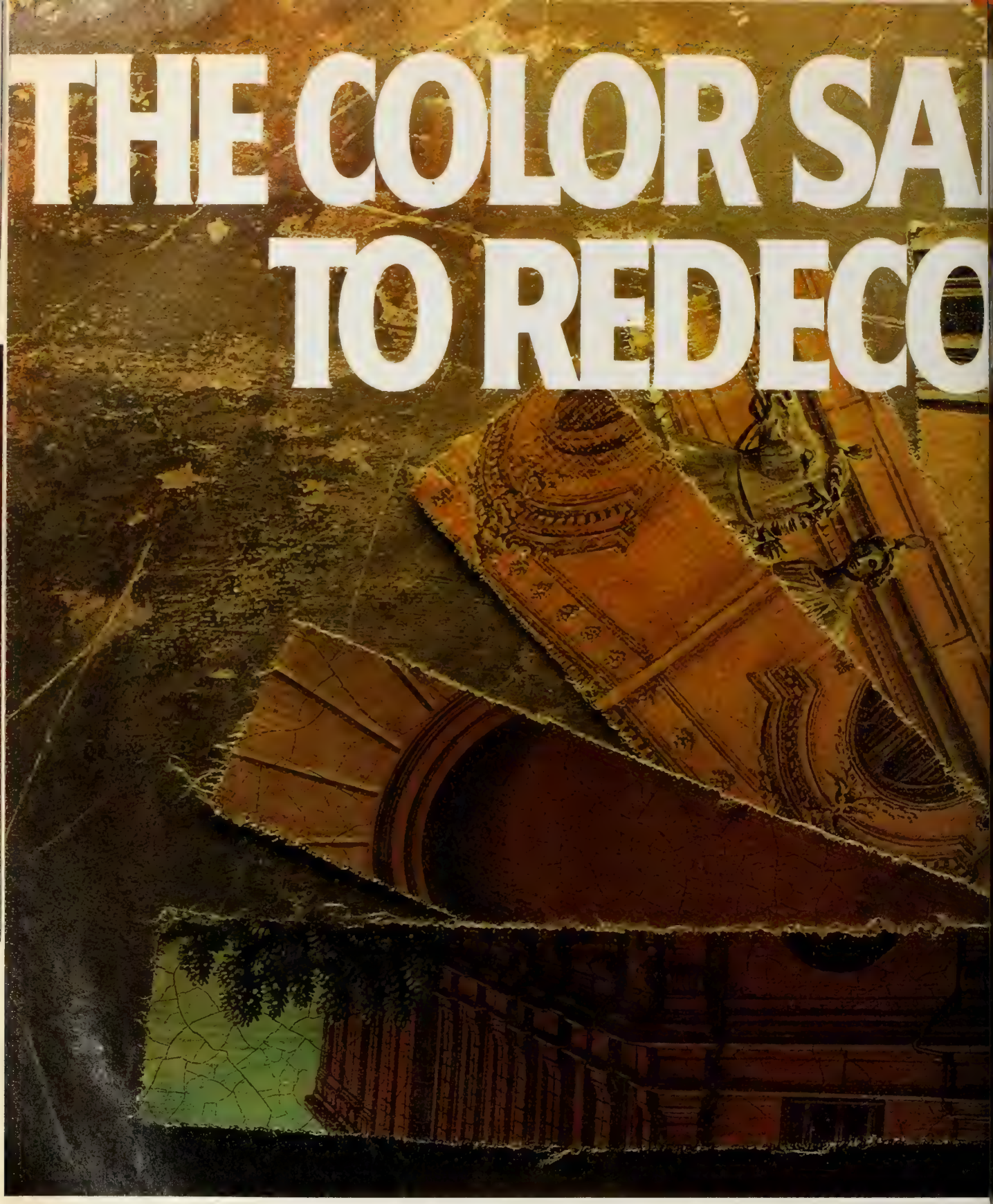

You want your bookcase to match your new curtains? No problem – just go to any good paint store. Redecorating an entire urban center with the colors found in 200-year-old paintings, prints and architectural drawings, however, is a problem of a somewhat different order. For this you need a company like Akzo to do the job.

Ten years ago, the old town center of Turin was shrouded in a drab, monochrome ocher yellow – the result of centuries of weathering and neglect. The original color scheme, rediscovered by two Italian architects in museums and archives, was analyzed by Akzo and faithful produced in modern, affordable coati

Turin now boasts one of the beautiful inner cities anywhere in the world, and one that serves as a s of inspiration to many others. Barc for example, recently decided to

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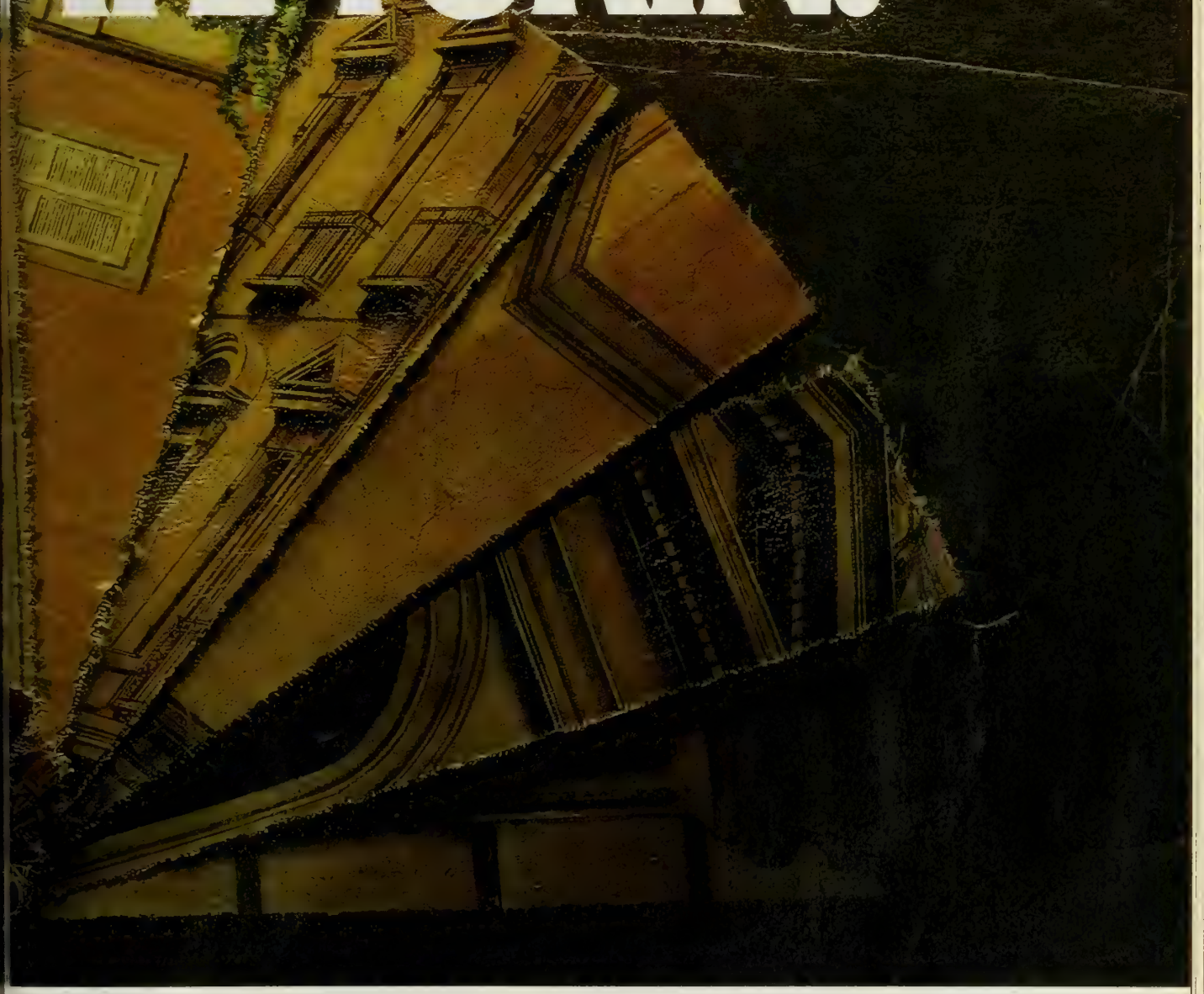
ATE TURIN.



e the past splendor of the Ramblas, s most famous boulevard, in time e coming Olympic Games.

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Laurent menswear line here that year. It was a smash hit. Daniel Hechter was the next French designer for Bidermann's stable. Licenses for Calvin Klein and Ralph Lauren came later.

"We dominated the industry. No one could push us around," says Allen Tucker, who was chief executive of Calvin Klein Menswear from 1977 to 1982 and is now president of Anne Klein Sport. "Our line was do it our way, or we won't ship."

That kind of arrogance rarely gets one very far, even on Seventh Avenue. In the 1980s Bidermann began feeling new competition from the more loosely styled Italian designs, which started to edge out Bidermann's more formal French cuts. Turin, Italy's Gruppo GFT, in particular, began importing the phenomenally successful Giorgio Armani, Ungaro and Valentino lines. Under its aggressive chief executive, Guido Petruzzi, Gruppo GFT rubbed salt in Bidermann's wounds by snaring some of Bidermann's top managerial talent.

Bidermann's initial reaction to this competition was disastrous. He began pushing volume at the expense of quality. Soon some of his biggest licensors began to defect. Calvin Klein, which represented about 20% of Bidermann's sales, bought back its license in 1986. "It's clear we were looking to sell a different customer than they were," sniffs Calvin Klein President Barry Schwartz. That same year, a license with Karl Lagerfeld, a top designer of women's fashions, was discontinued.

Then one of Bidermann's biggest remaining names, Yves Saint Laurent, complained about Bidermann's manufacturing quality. Saks Fifth Avenue and Bloomingdale's dropped the Yves Saint Laurent line altogether. "Fed up with $12 signature polyester ties," says a source close to both companies. Chastened, Bidermann has recently been working with Yves Saint Laurent, upgrading the collection.

The Cluett, Peabody acquisition is a further attempt to restore Bidermann's tarnished image. "What mor could you dream of?" asks Mauric Bidermann of the Cluett acquisitio and the clout his new labels give hin Properly marketed, they could gene ate enough revenues to help stabiliz the more volatile designer lines.

Some Seventh Avenue executive agree. "They have something goin for them which they didn't have be fore, which is an enormous base, says Kenneth Kolker, a senior Ma Co. executive.

Bidermann isn't eager to revea what he is actually going to do wit Cluett. But there are several areas i which Bidermann might expand sale and create synergies with other asset he owns. For example, Gold To doesn't have the same global presenc as Arrow Shirts, so Bidermann migh pursue joint ventures or new interna tional licensing agreements for th sturdy socks line.

Arrow, meanwhile, must change it white-bread image. Few people know it sells more than polyester-cotto blend shirts. In fact, there ar shirts with pima cotto blends and French cuffs which retail for up to $35 Bidermann could us Cluett's manufacturin plants to make shirts or suit for Bidermann designers lik Bill Robinson, whose men' suits sell for $600.

Bidermann isn't managin the new businesses himself In July 1989, in an act o sweet revenge, he snare Guido Petruzzi away from Gruppo GFT and named hin chief executive of Bider mann Industries. A keen marketer, Petruzzi is already a comforting figure to belea guered retailers. Blooming dale's has reintroduced Yves Saint Laurent menswear fo this fall, after seeing the line's better-coordinated pieces and pure silk ties. Petruzzi, says Bloomingdale's Chairman Marvin Traub, is "more important to us than the Cluett acquisition." But industry sources who once were confident that Petruzzi could revamp Bidermann's designer business have yet to be impressed.

With new shirts and socks, Maurice Bidermann is trying to make a comeback. It may work. But with a possible recession looming and consumer spending down, it won't be easy. ■

Claudio Edinger Gamma Liaison

Bidermann Industries' Guido Petruzzi and Maurice Bidermann
Trying to make a comeback with shirts and socks.

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Ralph Nader went to Russia recently, but the locals weren't much impressed with his warnings about the threat private interests pose to the general weal. Maybe they sensed what most Americans don't: that Nader himself is at the center of a web of sometimes predatory, frequently secretive, private interests.

Ralph Nader, Inc.

By Peter Brimelow and Leslie Spencer

CONSUMER crusader Ralph Nader recently visited Moscow, along with the cameras of CBS' *60 Minutes*, for a show to be aired this fall. According to an account in New York's *Village Voice*, Nader was "shocked" when a Soviet official praised free-market economist Milton Friedman. He "protested" that plans to privatize Soviet television might give opportunities to Western corporations. And, taken aback by the complaints of Russian consumers standing in line for hours, he suggested:

"Some people say that because the Soviet people have to stand in line, it gives them time to reflect and become philosophical."

The entire crowd laughed at him.

Americans, however, are not laughing at Nader—yet. Indeed, when insurance executives were planning their futile $30 million effort to defeat California's Proposition 103, the auto premium roll-back and regulation initiative that threw the industry into chaos in 1988, they shrank from attacking Nader directly although he was campaigning as the measure's most visible advocate. Their cowardly rationale: Polls showed he was simply too popular.

Nader's popularity is based on an almost unchallenged perception: that he is "Saint Ralph," as *New Republic* magazine once put it. "In all statisti-

The wages of virtue?
Neighbors say Nader has lived here since the early 1970s.

cal probability, at least several dozen of you who are reading this issue of the *New Republic* would be dead today if Nader hadn't single-handedly invented the issue of auto safety," wrote editor Michael Kinsley, now co-host of CNN's *Crossfire* and one of many ex-Nader employees strategically placed in the elite media: "Ralph is living proof that there isn't much difference between a fanatic and a saint."

AP/Wide World

The inquisition of General Motors: Senators Abe Ribicoff and Robert Kennedy flank counsel Jerome Sonosky (above), grilling GM Chairman James Roche (right) at 1966 Senate hearing.

But saints attract myths as well as miracles. Nader did not single-handedly invent the auto safety issue. For example, Senator Abraham Ribicoff (D–Conn.) had long been interested in the cause. He was actually dramatizing his own proposed legislation on the famous occasion in 1966 when he dragged groveling General Motors executives before his subcommittee to confess that they had indeed set detectives onto Nader, whose *Unsafe At Any Speed* attacked their Corvair.

Nor do statistics necessarily suggest that a Nader miracle has protected the *New Republic* subscription list. The fact is that U.S. traffic fatalities per 100 million miles traveled had fallen rapidly throughout the century, from 24 in 1921 to 5.3 in 1965. They have continued to fall since, to a recent 2.2. In 1965 the U.S. traffic fatality rate was about the lowest in the world—and it still is. Arguably, sheer economic growth and technological improvement have been the decisive factors here: Americans just consistently bought better, safer cars as they became available and affordable.

But there is an even more pervasive myth about Nader. As ex-Nader aide Gary Sellers once put it: "Because Ralph is self-sustaining, he is responsible only to his own conscience. The others aren't—they're in the middle of a web of interests, and they have to compromise their ideals to protect present income or future sources."

UPI/Bettmann

Last year FORBES found evidence that Nader had not in fact miraculously levitated above the "web of interests" in which other human beings are caught, but instead was intimately entwined with a group of rich lawyers: the plaintiff bar.

Our 1989 survey of the best-paid lawyers in America revealed that the top legal looters are not Ivy League corporate paper-pushers in Wall Street firms, but obscure plaintiff attorneys around the country—special ists in suing, often in personal injur cases. They are getting rich from th interaction of contingent fees, whic get them 30% to 40% of any damag award in addition to expenses, and th litigation explosion resulting fron the rewriting of "tort" law, coverin personal injury and accidents, by generation of reformist judge (FORBES, *Oct. 16, 1989*).

By rich, we mean very rich. Tota contingent fee payments, excludin expenses, are now estimated to ex ceed $10 billion a year and to be ris ing. FORBES identified at least 6 plaintiff attorneys who made mor than $2 million in each of the previ ous two years. Top moneymaker i 1988: Houston's Joe Jamail, with $45 million to $600 million.

Perhaps out of an uneasy con science, the plaintiff attorneys wer eager to tell us about their financia support of the noble Nader.

"We are what supports Nader," sai Pensacola's Frederic Levin ($7.5 mil lion, 1988 income). "We contribute t him, and he fundraises through us." "We support him overtly, covertly, i every way possible," said San Anto nio's Pat Maloney ($6 million). " should think we give him a huge per centage of what he raises."

Why? Says Austin's Bob Gibbins ($3.7 million): "Nader supports all o our issues, and we support all of his."

The most visible aspect of this mu tual support is the devastating bom bardment of unfavorable publicity that Nader and his affiliates, through their unrivaled media contacts, are able to bring down on corporations which are simultaneously defending a product liability issue. Nader organi zations have collaborated in such re cent firestorms as the Audi 5000's alleged "sudden acceleration," which government investigators subse quently showed to be totally false.

Regardless of the merits, bad pub licity can cripple a defendant's busi ness and compel him to consider set tling out of court in the hope of a quiet life—generally the most profitable outcome for the plaintiff attorneys. And for Nader, successful lawsuits are just another way of imposing his policy prescriptions, despite the plaintiff attorneys' expensive rakeoff.

When American Tort Reform Asso ciation former president James Coyne asked Nader about his plaintiff attor ney funding at a press conference in Washington, he stormed from the po dium and his supporter, Jay Angoff, rushed over and punched Coyne in the eye. (Angoff says it was a "very very mild shove.") Nader has refused

to talk to FORBES, but in a press-time fax he insisted: "Over the past 30 years, not 1% of the total funds raised by all our organizations have come from the legal profession."

Nader's hypersensitivity is easily explained. No one in American public life has been freer with accusations that his opponents are compromised by their own financial sources.

On May 10 there were bitter exchanges during Senate Consumer Subcommittee hearings on the Product Liability Reform Act, an attempt to stabilize the tort crisis. Two cosponsors, Senators Jay Rockefeller (D–W.Va.) and John Danforth (R–Mo.), objected to a letter Nader had published in their home newspapers, attacking their interest in tort reform and accusing them of being "huddled in Washington with corporate lobbyists, many of whom finance your [the Senators'] campaigns . . . taking away the existing rights of injured or sick people against the perpetrators of their harm."

Public Citizen's Sidney Wolfe, appearing as a witness, interjected angrily that Danforth was "lying" for suggesting that the organization was "talking for the economic interests of trial lawyers." Wolfe claimed that Nader "has had no connection with Public Citizen since 1980"—although Nader's identification with his flagship is so complete that his name is emblazoned on its recent direct mail campaign envelopes. Confronted with FORBES' Oct. 16 article, Wolfe asserted it contained "several mistakes" and implied that Nader's response had forced a FORBES "retraction or correction." (Quite untrue.)

Wolfe grudgingly said he would provide details of Public Citizen's own financing by trial lawyers "if it is possible." Somehow, it wasn't.

Nader tactics in the face of this sort of inquiry apparently haven't changed in nearly 20 years. In 1972 *New Republic* linked the fact that Nader's Center for Auto Safety had accepted a $10,000 check from the Association of Trial Lawyers of America to his opposition to no-fault insurance. *Wall Street Journal* editor David Sanford, in his book *Me & Ralph: Is Nader Unsafe for America?* recounts Nader's reaction: (1) refusal to discuss the subject; (2) a "hysterical, personally abusive" counterattack; (3) a claim that the Center for Auto Safety was independent of him, although Sanford later confirmed that Nader was intimately involved in the organization; (4) a claim that a *New Republic* note that its story did not say Nader's position was actually "determined" by ATLA's check was a "retraction."

Encouraged by all this, FORBES has performed a Nader-type raid on Nader. But let's be clear: We're *not* saying that Nader's views are "determined" by his financing. We're being more charitable about him than he is about his own opponents. Nader's views could well just coincide with his backers'. But his contacts could also have consequences.

UPI/Bettmann

The canonization of Ralph
Ralph Nader at 1966 Senate hearing where GM apologized to him.

For example, in 1988 Nader and California plaintiff attorneys agreed to exchange his credibility for their money. Nader came out in opposition to Proposition 106, a popular contingent-fee limitation measure.

"[106] was certain to pass," says Claremont, Calif.'s Herb Hafif (1988 income, $40 million). "It had 70%-to-80% approval ratings among the public, and no one [in the plaintiff bar] thought it could be taken on directly. . . . Finally I asked Ralph to help, and he did . . . and I helped his 103 initiative, and it passed by a few points, and we beat 106 by a few points."

This was not a sellout but a true compromise. It's embarrassing for Nader to be attacked for his studied passivity on contingent fees and the many other anticonsumer practices of the plaintiff bar. And the plaintiff attorneys presumably don't really want to destroy the insurance companies, the "deep pockets" that pay their fees and pass the costs on to consumers. But both sides sank their differences to make an effective alliance.

It just wasn't especially saintly.

We're also not investigating Nader's personal finances. But he has made his austerity vow central to his public image. He told the *Washington Post* last summer that he lives on less than $10,500 a year. (In a fax reply to our questions, he amended it: "Closer to $15,000, now. Insurance premiums sharply up.") We take this with a pinch of low-sodium seasoning.

"Oh God, limousines and nothing but the best hotels," says a disillusioned former state Trial Lawyers Association official. "We got quite a bill when he was in town." Nader's agent says he makes 50 to 100 appearances a year, charging a sliding scale; FORBES has heard of five-figure fees, suggesting an upper limit of $1 million speaking income alone.

Nader has confirmed to FORBES that his total earnings were around $250,000 a year back in the early 1970s—"funds devoted to our causes." But this is another Nader miracle/myth that needs to be set in perspective. Nader's "causes" are usually tax-exempt entities. Giving money to them is not the same as giving a quarter to a street person. It

The Ralph Nader Trust

Like all good empire builders, Ralph Nader has created a highly effective organization, the elements of which are tied together by financial and personal relationships. Each element can be put into one of five classes, depending on its closeness to Nader himself. The five classes are: Nader's nucleus; Affiliates; Loose affiliates; In Nader's gravitational field; On the frontier. Here is how we define each class:

Nucleus organizations: Nader's headquarters and personal foundations, controlled or heavily influenced either by him or with members of his family.

Public Safety Research Institute

Founded 1968.
Net worth: $649,000. Revenues: $52,000.

Grantmaking private foundation. Ralph Nader president, cousins trustees. Nader small contributor. PSRI donates minimum amount required by law, only to Nader and affiliated projects, including Essential Information and the Shafeek Nader Trust. Holds utility, telecommunications stock, U.S. Treasury bonds.

Citizens Television System, Inc.

Founded 1981 with about $250,000. Current yearly estimated operating costs: $120,000.

Private company owned by Nader, seeking nonprofit status. Produces programs for Channel 58 in Buffalo, N.Y.; also licensed to air in San Diego. Collaborating on program with Greenpeace.

Affiliates

Loose affiliates

In gravitational field

FORBES' estimate of Nader's relationship is based on several criteria, including: Was it founded or cofounded by Nader? Was it founded at Nader's instigation? Given seed money by Nader or Nader organization? Spun off from his core organization? Does it have joint activities and strategies with other groups? Interlocking directorships and shared personnel, or a common address with Nader organization? Does it receive grants from Nader foundations?

Frontier groups:

These are not Nader trust organizations but work closely with the trust.

Center for Auto Safety

Founded 1970.
Net worth: $797,000. Revenues: $742,000.

Director is Clarence Ditlow. Funding: membership; publication sales; major grants from State Farm and Allstate foundations. Sells litigation kits to lawyers involved in auto litigation; campaigns for regulation against targeted models, e.g. Audi 5000.

Occupational Safety and Health Law Center

Founded 1984.
Net worth: $15,000. Revenues: $150,000.

Funding: union, foundations, including Ford, Cummings and Nader's private foundation. A public interest law center specializing in defending workers' rights and employee suits.

Essential Information

Founded 1984.
Net worth: $45,000. Revenues: $197,000.

Publishes Multinational Monitor. Funded in part by grants from CSRL and the Fund for Public Interest Research. Joan Claybrook the treasurer.

Center for Study of Responsive Law

Founded 1968.
Net worth: $6.3 million. Revenues: $1.9 million.

Nader's headquarters. Funding: donations; foundations; its own interest and dividend income; court awards; $1 million "sales." CSRL projects include Harvard Watch and Freedom of Information Clearinghouse, possibly plaintiff-attorney related.

Safety Systems Foundation

Founded 1966.
Net worth: $571,000. Revenues: $57,000.

Grantmaking private foundation. Nader's sisters, Claire Nader and Laura Milleron, trustees. Ralph and Claire Nader main, small contributors. Activities: similar to PSRI.

National Coalition for Universities in the Public Interest

Net worth: unavailable. Revenues: $100,000.

Founded by Nader and receives funds from foundations and Nader. Disseminates information to support contention that universities have become "for-profit" entities rather than "public and educational."

Center for Science in the Public Interest

Founded 1971.
Net worth: $1.1 million. Revenues: $3.5 million.

Director is Michael Jacobson. Funding: membership; publication sales; foundations. Petitions and lobbies for regulation of the food and pesticide industry. Publication: Nutrition Action Healthletter.

Citizen Utility Boards

Four states, total estimated revenues: $2.5 millio

Funding: membership; "intervenor fees" uti are legally obliged to pay CUB activists. Util legal obligation to include CUB propaganda bills struck down by Supreme Court 1985 Nader advocates concept for insurers.

Public Citizen, Inc.

Founded 1971.
Net worth (including Foundation): $3.4 million.
Revenues: $7.7 million.

President is Joan Claybrook. Funding: mem ship; publication sales; court awards; fou tions; sale of discount home heating oil; Nader's longtime flagship lobbying, litiga group. Projects: Health Research Group pub es newsletter, sells litigation kits to plai attorneys suing drug companies. Congr Watch: lobbies Congress, works with Cit Action. Buyers Up: discounts. Critical M Energy Project: fights for "rapid phase-out nuclear power. Litigation Group: Specialize class action law suits. Aviation Consumer Ac Project*: lobbies agencies on airline Indu regulation. Sole "field office," in Texas, re edly intimate with Texas TLA.

Shafeek Nader Trust for the Community Interest

Founded: Year unknown. Net worth: unknown.

A Nader family trust funded in part by plai attorneys led by Herb Hafif. May be the "fa trust" that reportedly finances a lawyer citizen movement to "fight developers and porations" in Nader's home town of Wins Conn. Harvey Jester, Nader nucleus account says information disclosure must be appro by Nader; Nader denies responsibility.

Rosewater Foundation

Founded 1964. Net worth: unavailable.

Avis executives Robert Townsend and Don Petrie funded, personally withdrawing a Nader broke agreement to refrain from ot fundraising. Subsequent funding from Stew Mott, General Motors heir. Financed Nader or nizations in the 1970s. Jester says inactive.

Public Interest Research Groups

Founded 1970. Estimated net worth: at least $8 million. Estimated revenues: $20 million.

Twenty-five state chapters on 90 college ca puses. Funding: through mandatory or "negat checkoff" student fees; door-to-door canvass litigation; publication sales. Each state chap has a professional lobby staff. USPIRG: worth: $127,000. Revenues: $313,000. PIR Washington lobby office. Fund for Public Inter Research: Net worth: $4.6 million. Revenu $9 million. Boston headquarters for most PIR since 1982. In 1985 a federal appeals co declared New Jersey PIRG's mandatory fee lated First Amendment rights. Suit agai NYPIRG pending. A UCLA student referend recently barred CALPIRG from fee collecting.

Trial Lawyers for Public Justice Foundation

Founded 1982.
Net worth: $314,000. Revenues: $438,000.

Funding: plaintiff attorneys, contributing $1,0 to $10,000 annually. Nader's idea. Non-char ble arm allowed to receive contingency fe unlike public interest law nonprofits. Activiti class action, precedent-setting suits; litigati clearinghouse. Nader attends board meetings

Panthers Project Fund
ed 1970.
orth: $979,000. Revenues: $660,000.
ng: members and foundations. Has 81 ters in 31 states. Merged with Nader's d Professional Action Group in 1973.

en Action
ed 1979.
orth: unavailable. Revenues: $30 million.
tive director is Ira Arlook. Funding: door-to-canvassing in coordination with the PIRGs, Water Action and Greenpeace. Lobbies for nmental, insurance and health care legis- supports political candidates. Complaint with IRS and FEC alleges Citizen Action's al activity violates non-profit rules.

n Water Action
ed 1971.
orth: $538,000. Revenues: $5.3 million.
ng: door-to-door canvassing. Seed money Nader. With Citizen Action, founded nal Campaign against Toxic Hazards.

cates for Highway and Auto Safety
ed 1989.
orth: unavailable. Revenues: $3 million.
ng: nine insurance companies and associa- Cochairs: Public Citizen's Joan Claybrook erry Maatman, chief executive of Kemper. es for safety legislation.

cil for Responsible Genetics
ed 1983.
orth: $14,000. Revenues: $88,000.
ing: Nader and other foundations. Claire , director. Works to restrict recombinant research. Publication: Genewatch.

ommunications Research Action Center
ed 1967.
orth: $15,000. Revenues: $125,000.
ing: membership; publication sales; foun- ns. Nader, Joan Claybrook on "special advi- board." Litigates, monitors telecommunica- industry. Publication: Teletips.

ens for Tax Justice
ed 1979.
orth: $147,000. Revenues: $244,000.
ing: labor unions. Monitors corporate tax lance, lobbies for tax reform. Claybrook, k, NYPIRG's Blair Horner, 18 union officers ard.

onal Insurance Consumer nization
ed 1980.
orth: $30,000. Revenues: $150,000.
dent is J. Robert Hunter. Funding: founda- s; publications sales. Nader provided 000 seed money, raised further $100,000, ding $25,000 from former California Trial ers Association President William Shernoff, thy "insurance bad faith" specialist. Hunter d draft and enforce Proposition 103.

Institute for Injury Reduction
Founded 1988.
Net worth: $4,000. Revenues: $97,000.
Funding: Plaintiff attorneys. CAS director and expert witness A. Ben Kelley and cofounder Larry Coben, active in ATLA's automobile-related litigation group, president and chairman respectively. Finances product liability research and media events. In 1989 paid $106,000 to Kelley's company, a consulting firm for auto plaintiff bar.

Pension Rights Center
Founded 1976.
Net worth: $259,000. Revenues: $418,000.
Funding: Nader and other foundations, government and other contracts. Affiliates include 300 plaintiff attorneys.

Fund for Investigative Journalism
Founded 1969.
Net worth: $16,000. Revenues: $80,000.
Funded by foundations. Gives grants to journalists, including an investigative reporter for Multinational Monitor.

Center for Women Policy Studies
Founded 1972.
Net worth: $291,000. Revenues: $448,000.
Started with seed money and office space from Ralph Nader when he was Public Citizen president. Claims no present Nader link.

Citizens Auto Revolt
Founded 1985.
Net worth: not applicable. Revenues: $70,000.
Funding: New Jersey Citizen Action and NJPIRG, foundations. Established to try to pass New Jersey legislation similar to California's Proposition 103. New Jersey Supreme Court ruled against referendum. Campaign chairman Jay Angoff, former Public Citizen staffer, now N.J. deputy insurance commissioner.

Texas Center for Policy Studies
Founded 1983.
Net worth: unavailable. Revenues: $125,000.
Funding: foundations. Projects include effort, with Public Citizen, to get federally owned former S&L properties declared wetlands, reducing resale value.

Consumers Union
Founded 1936.
Net worth: $76 million. Revenues: $73 million
Funding: *Consumer Reports* subscriptions (4.5 million). Cofounded Center for Auto Safety with Nader. Board members Joan Claybrook, Clarence Ditlow, Michael Jacobson. Collaborates with Public Citizen and PIRGs to fight against tort reforms; recently joined panics about Alar, Jeep rollover.

Consumer Federation of America
Founded 1967.
Net worth: unavailable. Revenues: $800,000.
Funding: membership dues. A coalition of 240 consumer groups, including Nader's. Sole activity is federal lobbying.

National Committee for Responsive Philanthropy
Founded 1976.
Net worth: $72,000. Revenues: $391,000.
Funding: membership, foundations, corporations. Lobbies foundations, corporations to give to "progressive" groups. Joan Claybrook represents Public Citizen on board. Cochair Maggie Kuhn, Gray Panthers founder.

Fund for Constitutional Government
Founded 1974.
Endowment: $1.2 million.
Funded in part by General Motors heir Stuart Mott. Associated with Nader's 1970s Congress Project. Its Government Accountability Project works closely with Public Citizen, filing joint amicus briefs against the government.

Greenpeace USA/Greenpeace Action
Founded 1975.
Combined revenues: $50 million.
Funding: membership. Works with Public Citizen on toxic wastes, nuclear energy, etc. Plans canvassing with PIRGs, Citizen Action, Clean Water Action.

State Trial Lawyer Associations
Funding: plaintiff attorney membership. Nader collaborates closely with state TLAs on fighting tort reform. He speaks regularly at state TLA conventions. Coordinates closely with state PIRG and Citizen Action chapters on legislative strategy.

Note: All figures most recently available.
* Claimed at press time separate tax status.
Sources: IRS Form 990s; Public Interest Profiles; Dan Burt's Abuse of Trust: A Report on Ralph Nader's Network (Regnery Gateway, 1982); FORBES estimate.

Breton Littlehales

American Tort Reform Association's Jim Coyne
Says questioning Nader's lawyer link earned him a punch.

can generate tax deductions—as well as, in effect, financing Nader's own business. Indeed, Nader may personally own the Public Safety Research Institute (net worth, $649,000), because he has registered it under Delaware's peculiar nonprofit law—an irony, because he has denounced business' taking advantage of the state's liberal incorporation rules.

Another Nader miracle/myth: his long-standing claim that he lives "in a simple room" near his office. Even Nader's close associates apparently aren't told the address. And he personally repeated the story to the *New York Times'* Philip Shenon last year.

But neighbors say, and have said for nearly 20 years, that Nader lives in a townhouse, worth perhaps $1.5 million and assessed at $7,400 annual property taxes, on Bancroft Place in northwest Washington, D.C. *(see picture, p. 117).* District records show the deed is held by Nader's sister Claire, who seems to work in his organization. (Nader still denies this, and will say only that his sister "works on a number of civic projects and research programs.")

There's nothing shocking about living well, except by Nader's peculiar standards. His many admirers would certainly be happy to buy him an ecclesiastical palace. But maybe that would suggest he was not a saint but human—even, possibly, fallible.

FORBES estimates Nader has control to varying degrees over 29 organizations with combined revenues of $75 million to $80 million and assets of at least $23 million *(see chart, p. 120).*

We faced three problems:

• Although Nader favors strong regulation, his own nonprofit, tax-exempt area is very loosely policed. For example, it is impossible to know how much "sales and membership" revenue comes from trial lawyers; some must, because major Nader organizations openly sell litigation kits, material obtained through Freedom of Information requests and discovery proceedings that helps lawyers preparing to sue. And anyway, plaintiff attorneys are known to hide their donations by such methods as having their wives sign checks.

Public Citizen's Sidney Wolfe
Owes senators list of lawyers.

• Although Nader advocates minute regulatory enforcement for others, preferably with criminal penalties, his own organizations display a remarkable "pattern" of filing delinquencies—to borrow the jargon of RICO, the Racketeer Influenced Corrupt Organizations Act, extending which to just such technical white-collar crime is a pet Nader cause.

The IRS says it has no record of Nader's headquarters, Center for Study of Responsive Law, founded in 1968, and has never received a Form 990, the appropriate disclosure filing, from it. (Nonprofits can be obliged to show their 990s; at press time CSRI sent one to FORBES—but unsigned by an accountant and unseen by the IRS.)

Additionally, all but one of the 18 Nader organizations in Washington have failed to register or obtain current licensing from the city's Department of Consumer & Regulatory Affairs. FORBES inquiries have prompted an official investigation.

Nader organizations have also failed to file in several of the states where they solicit funds.

This pattern is not new. It was noted in Washington lawyer Dan Burt's exhaustive 1982 survey of the Nader organizations, *Abuse of Trust.* In 1989 Nader aide Mark Green's Democracy Project was denied a solicitation license for regulatory noncompliance. Green now heads up New York City Mayor David Dinkins' Department of Consumer Affairs.

Nader has had another run-in with regulators: In 1970, according to Gannett News Service, his Safety Systems was fined by the IRS for "jeopardizing charitable purposes," including, in one case, short-selling the stock of a company Nader was attacking.

• Nader once wrote that "Information is the currency of democracy. Its denial must always be suspect." But his own organizations are vehemently secretive, sometimes even declining to disclose their addresses. They are particularly sensitive about funding, unlike many nonprofits, and about their precise relationships with Nader.

We suspect Nader's organizations are more centralized than they initially appear. For example, the Fund for Public Interest Research administers door-to-door canvassing for member-state Public Interest Research Groups (PIRGS), and as much as $8.5 million of

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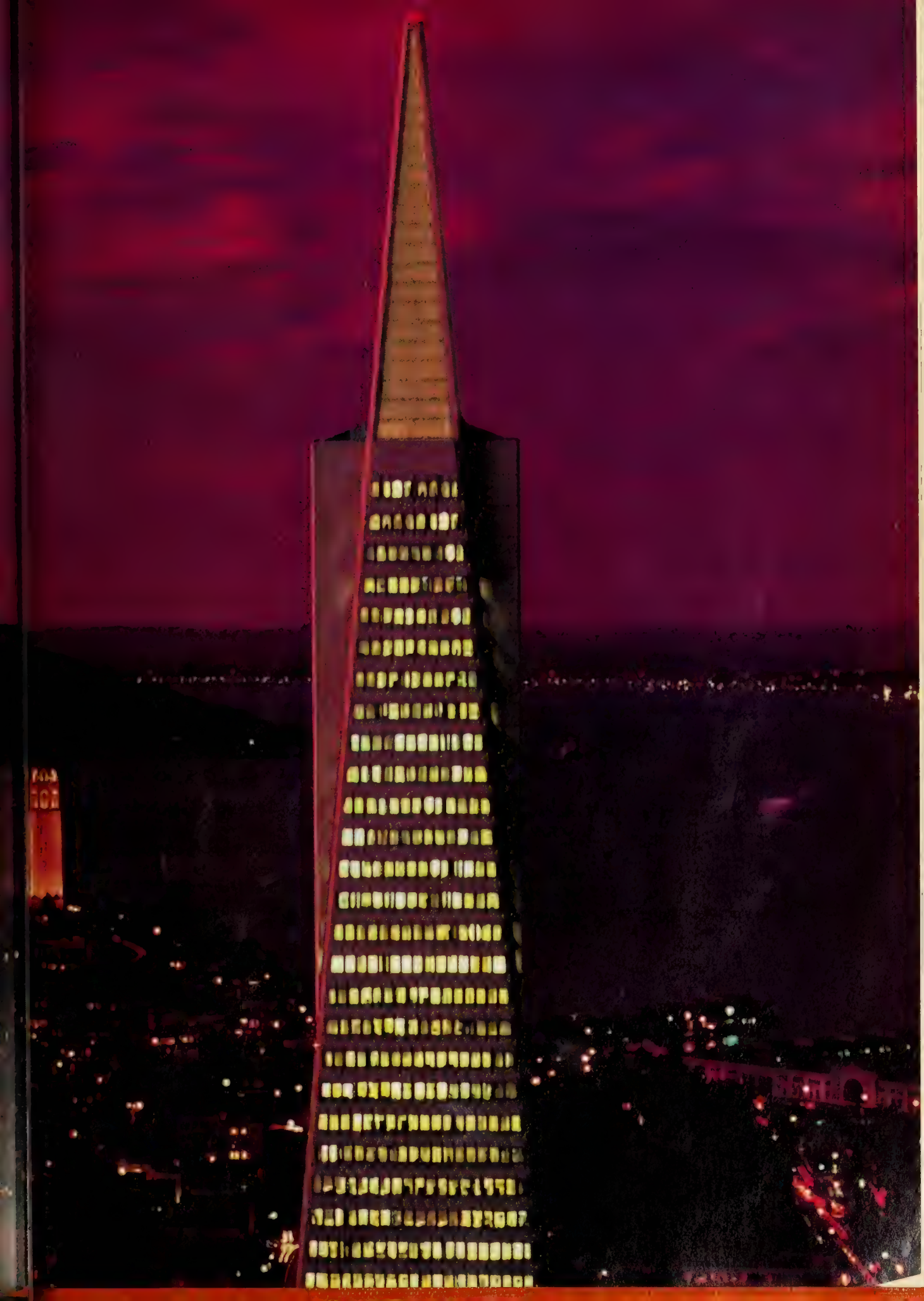

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the proceeds flow to its coffers in Boston. Managers coordinate the PIRGS' canvassing with that of Clean Water Action and Citizen Action.

And although Nader has campaigned for federal chartering of corporations on the grounds that they tend to be controlled by "a management autocracy," this exactly describes his own organizations. Nader's control over his nucleus appears absolute. And even some Nader affiliates that accept a "membership," like Public Citizen, have no provisions for internal democracy. By contrast, full members of the National Rifle Association get to vote on board members and other aspects of its governance.

But then, they don't have the advantage of being saints.

All of which eerily resembles nothing so much as John D. Rockefeller's original secret Standard Oil Trust. This "shrewd and slippery device for evading responsibility," in the words of the great muckraking journalist Ida Tarbell, "had no legal existence. It was a force as powerful as gravitation and as intangible. You could argue its existence from its effects, but you could never prove it. You could no more grasp it than you could an eel."

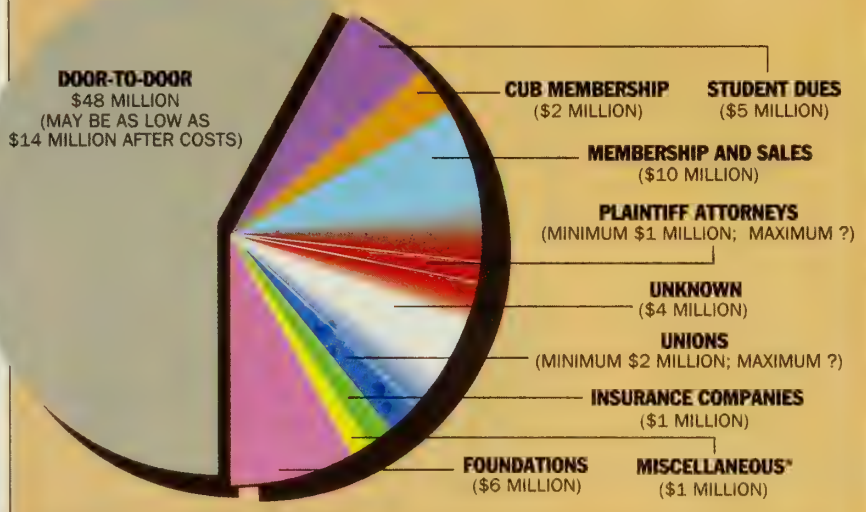
Questions to the Standard Oil Trust had to be phrased with extreme care because of a bland pretense that there was no one here but us chickens working "in harmony," and because of an unsaintly penchant for legalistic loopholes. The Nader Trust is just the same but considerably ruder.

Presumably one reason for this behavior: deniability. Thus key Nader henchperson Joan Claybrook, Public Citizen's president, said last year that "we have 50,000 members [contributors of $50 or more]. I would be surprised if there were 20 members of the plaintiff bar among them."

Claybrook could have told us that, apart from Public Citizen, three Nader affiliates were openly funded by plaintiff attorneys to the tune of almost $1 million. And that she was on the board of one of them.

Another possible reason for the Nader Trust's secrecy: It's partly built with tax-deductible money. Up to 40% of all its funds are what Washington calls "tax expenditures"—money that would otherwise be in government hands. And just as the legal environment of the time made it difficult for Rockefeller to organize across state lines, the complications of tax law today may well make it hard for Nader to simultaneously generate propaganda, lobby and campaign for his political candidates while preserving deductible status. For both Rockefeller and Nader, noninvolvement may be a necessary legal fiction.

Where the Nader Trust's money comes from



* Includes government grants and litigation.
Sources: FORBES estimates based on Form 990s and Public Interest Profiles

Already the Federal Election Commission has fined one Nader loose affiliate, the Illinois Public Action Council, for illegal use of funds in a political campaign. The FEC is currently considering a complaint by the National Republican Senatorial Committee alleging massive use of tax-exempt money in the 1988 election by Citizen Action and its affiliates in alliance with the UAW, the National Education Association, the Machinists and other labor unions.

Who supports the Nader Trust? Despite its best efforts, the web of interests' outline is clear *(see chart, above)*.

Some threads of this web merit particular attention:

- *Litigation* wins court awards for the Nader Trust—over $150,000 of Public Citizen's revenues—giving it another reason to oppose tort reform.
- *Foundations* supporting the Nader Trust range from the impeccably Establishment, like Ford and Rockefeller, to the decidedly left, like the New World Foundation and the Philip M. Stern Family Fund. Other contributors are tobacco fortunes like Mary Reynolds Babcock Foundation. Smoking is a far greater health problem than many of Nader's concerns, but he has shown little interest in it until recently. The Playboy Foundation supported CSRL for many years, apparently not compromising Nader's stated sensitivity to feminist issues.
- *Discount deals* reportedly intrigued Nader because of the mass membership built up in this way by the American Association of Retired Persons. Public Citizen's Buyers Up and some PIRGS, although technically nonprofits, now offer discounts on, for example, home heating oil.

In 1988 Buyers Up offered to sell radon detection devices in return for a cut. Some suppliers declined, and Public Citizen immediately trashed their products for shoddy quality.

- *Political muscle* produces money for the Nader Trust to a distinctly unholy extent. During the Carter Administration, numerous Naderites were appointed to government agencies, notably Joan Claybrook at the National Highway Traffic Safety Administration, and government money was shoveled to the Nader Trust. Naderites are still well placed in friendly state and local governments: The pugnacious Jay Angoff is now New Jersey Governor James Florio's Deputy Commissioner for Insurance. (Nader Trust organizations also get some $100,000 annually from the Combined Federal Campaign, the civil service charity.)

The Nader Trust has also muscled subsidies for its Citizen Utility Boards out of the utility industry—and, more spectacularly, for its PIRGS—out of student dues at many colleges, although most PIRG activity is off-campus and political. Both methods have suffered from court challenges. But when a UCLA student

referendum recently barred CALPIRG from fee collecting, its lobbyists in Sacramento attempted to restore that source of funding.

• *Door-to-door solicitation* raises an impressive $48 million a year for the Nader Trust, making massive use of cheap, idealistic foot soldiers—a base salary of between $175 and $300 a week plus commission. Citizen Action says that on any given summer night it has 2,000 on the march. Reports from the canvassing front speak of a combination of strict discipline and song-singing boosterism redolent of a kamikaze sweatshop.

All very creditable, if creepy. But remember that this successful solicitation partly depends on offering a tax deduction in return. And the issues raised on the doorstep—clean water and apple pie—are not alarmingly political . . . at first.

Remember also that the cost of this money can be high—sometimes up to 70% of gross—and it takes a lot of organizing. Still worth it, of course, not least because the presence of canvassers on the doorstep is in itself politically useful. Indeed, Citizen Action's Edwin Rothschild directly told FORBES that its canvassers push political candidates, a flagrant breach of their nonprofit status that Executive Director Ira Arlook was anxious to deny.

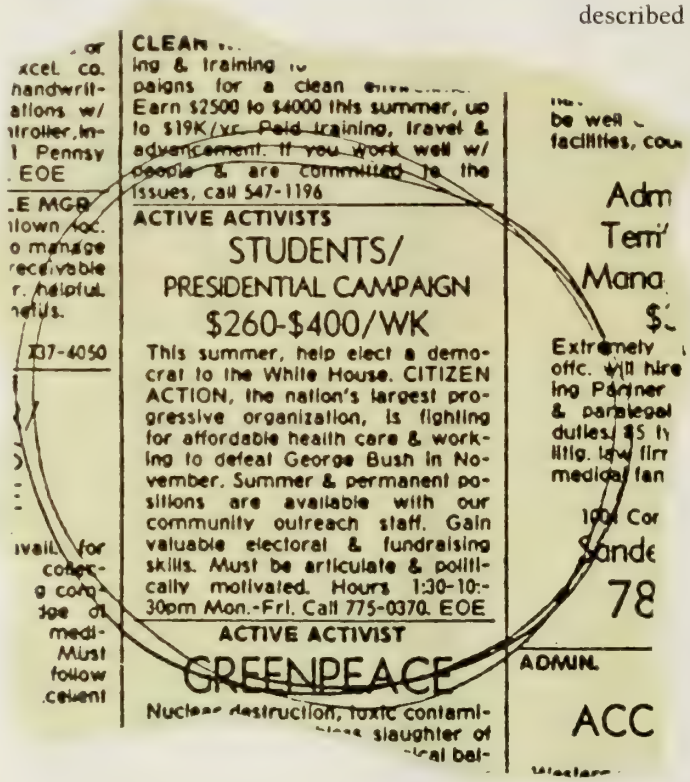
• *Unions,* aided by lax disclosure, can easily conceal their support for the Nader Trust. Thus the UAW, long rumored to be close to Nader, militantly refuses to explain the $713,000 of its members' dues that IRS documents show it gave in 1989 to such interesting-sounding causes as "Citizenship" and "Fraternal." Nevertheless, at least one Nader loose affiliate, Citizens for Tax Justice, is virtually all union-funded. And there are other signs of union involvement: Union officials turn up on the boards of Citizen Action.

• *Insurance.* "We do not take any business or industry money at all," Joan Claybrook told FORBES in 1989.

Public Citizen may not. But Claybrook is cochair of Advocates for Highway and Auto Safety (revenues, $1 million), which is funded by the insurance industry. And the Center for Auto Safety took in contributions of over $200,000 last year from Allstate and State Farm foundations.

This relationship is no surprise to the embattled minority of non-Naderite promarket consumer groups. "In fact, industry is not actually on our side," says Consumer Alert's Barbara Keating-Edh, "because they use regulations to gain a competitive edge."

The edge the insurance industry seeks is to staunch its claims outflow—in any way. Nader can help pass costs on: for example, to Detroit and the consumer (expensive mandatory safety devices) or the government (more expensive roads) or the motorist (speed limits, crash helmets).



Tax law violation? According to a complaint filed with the Federal Election Commission, this May 15, 1988 Washington Post Citizen Action ad allegedly shows canvassing for candidates despite nonprofit status.

Nader is acutely aware of this industry hankering. He was openly power-brokering at last year's Professional Insurers Agents convention, one of many insurance forums he regularly addresses, urging the industry to "sit around the table" with him and use its "muscle" to support his current panaceas—and to abandon tort reform, which he warned would bring "an incredible backlash."

Insurance companies are notoriously short-sighted. But even a blind and stupid industry might have gotten the message after Proposition 103. Nevertheless, the insurers coughed up for Advocates for Highway and Auto Safety the next year.

Adding insult to injury, Nader made an extraordinary intervention into the 1990 California Democratic gubernatorial primary. Supporting plaintiff attorney-linked John Van de Kamp against Diane Feinstein, he said that with a vote for Feinstein "You might as well write a check to Aetna and State Farm"—two of the very insurers that write checks to the Nader Trust.

• *Plaintiff attorneys* and Ralph Nader have a connection that can only be described as umbilical. The financial birth of Nader's movement, another myth/miracle, was the unprecedented $425,000 settlement in 1970 of his invasion of privacy suit against General Motors. And Nader's lawyer, Stuart M. Speiser, has written that he contributed $10,000 of his $150,000 share to Public Citizen's Aviation Consumer Action Project—"at Ralph's request."

So Nader was soliciting a major plaintiff attorney contribution right at the moment of creation. Typically, Speiser himself is an aviation law specialist and stood to benefit from his "charitable" act.

Despite Claybrook, plaintiff attorneys who are members of Public Citizen are easy to find. "I contribute regularly," says Knoxville's J.D. Lee (estimated 1988 income, $1.5 million). "I probably give them [consumer groups] 5% of my income," says Miami's J.B. Spence (1988 income, $2.5 million). "TLPJ, Public Citizen, I belong to all of them. . . . It's a mutual exchange thing."

All this and tort reform, too. "Whenever a state Trial Lawyers Association has a bill that they are really concerned about," says the disillusioned former state TLA official, "and it looks as though they need a heavy, they bring in Ralph." Nader recently made such interventions in Pennsylvania and California. Our source says Nader attends state TLA conventions, for a fee, "winter and summer."

If idealistic canvassers are Nader's foot soldiers, the plaintiff attorneys are his cavalry, sure and swift.

"Ralph might call me and say, would you support such and such a group and I would say yes," says

AP/Wide World

The saint and a disciple
Ralph Nader and Public Citizen's Joan Claybrook at 1989 press conference on insurance rates.

Houston's Richard Warren Mithoff (1988 income, $7.4 million), himself a former Raider. "Or he might say, if you could contact some lawyers—and others—and see if they would be interested in supporting such and such a group." Mithoff says he's "certainly given money" to Public Citizen.

Does this web of interest have implications? Well, maybe so.

• *Left-wing looneyism.* The Nader Trust gets money from foundations interested in left-wing causes. And many Nader Trust attitudes can only be explained by leftist ideology. For instance, Public Citizen is opposed to a capital gains tax cut, a leftist reflex without any conceivable consumer rationale that has even provoked complaining letters to its house magazine from its own supporters. And innocent-looking causes are Naderized into a leftist political agenda: Founder Maggie Kuhn says Nader-affiliated Gray Panthers is "an advocacy group . . . teaching about peace and justice, not consumer stuff." Conversely, as the non-Naderite American Council on Science and Health's Elizabeth Whelan says, "if there is a health problem that does not target industry, they [the Nader Trust] completely ignore it." She points out that Nader's CSPI has campaigned against presweetened cereals but has never endorsed fluoridation.

• *Tort reform.* The Nader Trust's plaintiff attorney relationship sets in context Nader's absolute opposition to all attempts at tort reform. Yet one study by consultants Tillinghast suggests the tort system's gross cost to the economy (and the consumer) was $117 billion and rising fast—not counting stifled innovation.

• *Protectionism.* Nader's labor union relationships suggest he will continue his traditional tactful reticence about America's drift to protectionism, a favorite labor cause. Yet quantitatively this is a gigantic threat to consumers—currently costing them about $80 billion a year, according to Nancy Oliver, a director at Citizens for a Sound Economy, another non-Naderite Washington consumer group. And it's estimated that the proposed Textile, Apparel and Footwear Act of 1990 now before Congress could cost consumers $160 billion in the first five years alone. But Public Citizen says it has "no position" on the legislation.

• *Environmentalism.* Nader's dependence on white middle-class staff and canvassers suggests he cannot question their favorite cause: environmentalism. But, ultimately, it must raise costs to consumers.

How Nader will resolve this conflict is clear from the recent controversy over federal Corporate Average Fuel Economy regulations (CAFE): In an interview with *Barron's* David Henderson, Nader sided with the environmentalists in demanding that CAFE standards be increased, although this pushes people toward smaller cars that are less crashworthy. Naderites argue that smaller cars should just have more safety devices—although these must tend to raise costs and price out the marginal consumer.

Illogical for a safety and consumerism advocate—but a necessary compromise for a tough professional agitator balancing in his web of interests.

FORBES does not claim that Ralph Nader is corrupt, although he's clearly a case of what historian Richard Hofstadter described in his celebrated essay *The Paranoid Style in American Politics*: "Overheated, oversuspicious, overaggressive, grandiose and apocalyptic in expression. . . . His sense that his political passions are unselfish and patriotic, in fact, goes far to intensify his feeling of righteousness and his moral indignation." Nader may be a genius at touching this paranoid strain in the American people. He's also unsaintly—and untrustworthy—at any speed. ■

Those who interpreted the invasion of Kuwait as the start of a new era of high oil prices weren't paying attention to events in Russia.

Eastern Siberia could become another Saudi Arabia

By Vladimir Kvint

When Saddam Hussein brutally annexed Kuwait, the price of oil took off. Here was an Arab ruler who was threatening to hold the industrial world hostage for its oil. It was not so much Saddam Hussein's tanks and his missiles and poison gas that frightened the West as his possible use of the oil weapon.

In fact, the Kuwait invasion was a sign of weakness on Saddam's part, not strength. Saddam could not finance his imperial ambitions on $17 oil, so he sought to drive prices higher at the point of a gun. A primitive man's primitive solution to a complex modern problem.

It won't work. What's more, most of the other Arabs know it won't work. That's one reason they are not backing Saddam.

Demand and supply will set the price of oil, not guns and embargoes. Demand is growing, but supply may be growing faster. By the beginning of

the next century, Russia may be exporting more oil than Saudi Arabia is today. Here Russian economist Vladimir Kvint, a frequent contributor to FORBES, explains why.

Time is running out on the use of oil as a political weapon. Those who have tried to wield the weapon, Saddam Hussein and his predecessors, have counted on the fact that the Middle East sits on the world's largest proven reserves of oil. But we now know that there are even bigger reserves in Russia's Siberia.

Not tomorrow, but in the years ahead, more and more of this oil will reach world markets, assuring that world oil prices will remain under pressure and making it virtually impossible for any Arab ruler to hold the world to ransom.

So, whatever happens to Saddam Hussein, the current level of world oil prices will prove to be unsustainable.

The Japanese seem to understand this better than the Americans do. Without doubt, their understanding of Siberia's potential helped persuade the cautious Japanese that they could afford to antagonize Iraq by participating in the blockade. As far back as 1975, Japanese interests launched their exploration for oil and gas off Sakhalin, the Pacific island just north of Japan *(see map)*.

The Pacific Century?
Relative to the Middle East, eastern Siberia and its oil treasures are in America's backyard—and even more so in Japan's. For several years, the Japanese have been exploring fields off Sakhalin Island.

Even now, with its economy in tatters, the U.S.S.R. remains the world's absolute leader in oil production. Last year, production, according to official Moscow sources, was 12 million barrels a day. My own evaluation for the U.S.S.R. is somewhat higher—12.5 million barrels. By comparison, Iraq and Kuwait combined produce just over 4 million barrels a day; Saudi Arabia produces 5 million barrels; all of OPEC produces 24 million.

Yes, the Russians need a lot of that oil at home—less than 20% of their production goes for export. Russia also desperately needs foreign exchange to buy other things, and their easiest way of getting that exchange is by boosting oil exports. With Western help, eastern Siberia could become another Saudi Arabia—although not, of course, with Saudi Arabia's low recovery costs.

A whole new source of oil is about to burst upon the world scene: eastern Siberia and the Arctic zone of the U.S.S.R.

From their magazines and newspapers, most Americans have gotten the idea that the Soviet Union's oil production is centered in the republics of Kazakhstan and Azerbaijan—in the oilfields of Baku, Astrakhan and Shevchenko along the Caspian Sea—and in the fields of western Siberia, which are fast being depleted. This is misleading. The Central Asian republics' reserves have been running out for decades; they now account for just 6% of Soviet production.

Nearly all the rest of Soviet production comes from the Russian Socialist Republic, primarily from the western Siberian fields tapped in the 1960s and 1970s. They are closer to population centers and enjoy milder climate conditions than the eastern areas. But thanks to mismanagement and abysmally low worker incentives and productivity, yields from western Siberia have been steadily falling.

These are old fields. To get the same amount of oil, one must now drill six times as many wells. And the cost of the ecological damage in these regions is bigger than the costs of the facilities for waste processing.

Yet with help from capitalist countries, western Siberia can significantly increase its oil exports based on its northern and deeper oilfields: On average in the U.S.S.R., only 7% of oil is extracted from the oilfield, about a fifth the level in U.S. fields. Especially promising are the Sea of Okhotsk shelf and formations near the Pechora River region, 1,000 miles northeast of Moscow.

But all this is small change compared with the exciting prospects for eastern Siberia. According to geologists of the Soviet Union's Academy of Sciences, the oil reserves of eastern Siberia are even bigger than those forecast for OPEC.

As long ago as 1978 it was clear to Siberian geologists and economists that western Siberia's oil production peak was rapidly approaching and that new fields must be sought farther east. By this time very promising geological forecasts had appeared, announcing secretly, as always, unheard-of oil and gas fields in eastern Siberia, in the Arctic offshore and in the Pacific coastal regions of the Soviet Far East.

As the economic knowledge of these regions was practically nonexistent, I proposed a series of economic expeditions to evaluate the treasures locked beyond the Urals. These missions, similar in some ways to America's Lewis and Clark expeditions, included geologists, engineers, and physicians. I was one of them.

In 1979-81 we explored the Arctic regions of the U.S.S.R., the Far East and various territories of Siberia. The geologists discovered tremendous potential between the eastern shore of the Yenisey River and the Lena, especially the oil belt dividing the Taymyr peninsula from the mainland.

A slow start has been made on development. East Siberian fields will produce only around 20 million barrels this year. Not much in global terms. But I think we'll see the same kind of growth in east Siberia that we saw in west Siberia: from 7 million barrels a year in 1965, to 7 million barrels of oil *every day*. By the year 2000, eastern Siberia will be yielding more than 140 million barrels of oil each year, as well as billions of cubic feet of natural gas.

But these are minimal figures for the year 2000. They assume little help from abroad in either technology or capital. If the capital and expertise of companies like Exxon, Royal Dutch/Shell and British Petroleum could be turned loose on the region, there is no telling how high production might go. Straw in the wind: Chevron Corp. has announced it is beginning exploration in Kazakhstan, prologue, perhaps, to the oil fever to come.

Eastern Siberia may sound like another planet to Americans. In fact it is America's next-door neighbor, four

hours' flying time from Anchorage and about seven hours from Seattle. Harsh as it is, it is a much pleasanter place to live and work than the barren deserts of Arabia.

Alaska, until 1867 a Russian province, is separated from some Siberian oilfields by only several dozens of miles across the Bering Strait. There are some oilfields in the far eastern U.S.S.R.—principally off Sakhalin Island and the Kamchatka Peninsula, for example—from which an overnight oil delivery to Alaska could be organized.

U.S. consumers would benefit directly from this proximity. I have calculated that total transportation costs to the U.S. West Coast from eastern Siberian oilfields would be a fraction of the costs of importing oil from the Middle East. Russian oil may even be pumped from tankers into the Aleyeska pipeline. Within ten years this natural geographic proximity will become a new factor in economic growth.

The world's energy transportation routes and economics are going to be changed. The Arctic Seaway, linking all of the northern U.S.S.R. to the warm-water Pacific, is to become a very busy route indeed. And an extremely efficient one. Foreign companies began experimenting with this route back in 1980. I watched the unloading of the Mannesmann pipes from West Germany sent for the gas pipeline to the icy, unequipped shore of the northern point of the Yamal Peninsula.

In addition, the great eastern Siberian rivers, including the Yenisey, the Indigirka and the Lena, create a natural transportation system for oil and other resources. And the 2,000-mile-long Baykal-Amur railroad, begun in the 1970s, runs through the middle north of Siberia and the Far East, connecting the oilfields with the already existing ports on the Pacific Ocean. From there, it is a one-day tanker run to Japan, and another day or two to Alaska.

Beyond oil and gas there are other Siberian treasures to harvest—nonferrous metals, coal (next door to one oilfield is the world's biggest brown coal field, estimated at more than a trillion tons), gold and lumber. And while extracting oil you do not want to throw away diamonds, just because they are in the way.

Development in eastern Siberia will be somewhat slowed by environmental concerns. While Soviet environmentalists are not as anticapitalistic as their American counterparts and do not enjoy the weapons provided by the U.S. legal system, Soviet environmentalists will put pressure on the authorities to make sure that the eastern Siberian wilderness is not ravaged. In former years many big Siberian projects were facilitated by bribes to Soviet bureaucrats.

But Siberians will not allow the rape of nature and their lives anymore. Eastern Siberia is a beautiful wasteland, with huge forests and severe mountains. It has cold winters, but hot and bright summers. Several attractive cities exist in these regions, such as Noril'sk and Krasnoyarsk and Irkutsk.

Under Soviet rule, development in Siberia has been tremendously damaging to the environment. With exploitation comes the same sad picture. All the trees are cut. Near the mines and oilfields, workers endure terribly shabby housing—one room for four people in a hostel, furnished with an old wardrobe, table and TV set. For 4,000 to 5,000 oil workers there is one club, usually painted Party red, where the entertainment is amateurish. No wonder the workers drink so much. The fatigue gradually accumulates, the productivity of labor falls.

If Western companies are to go to the U.S.S.R, they'll have to invest something. But at an estimated $8,000 per worker, it will still cost less for these companies to upgrade Siberian facilities than it now costs to house and feed workers in Alaska or on North Sea oil rigs. Employers will also have to invest in social infrastructure, and pay decent wages.

But to whom should interested foreign businesses apply? The U.S.S.R., led by Mikhail Gorbachev? Or the Russian Republic, led by Boris Yeltsin? The parliament of the Russian Socialist Republic has already declared its property rights for all of Russia's natural resources, including areas that currently produce 92% of the U.S.S.R.'s oil. Foreign oil entrepreneurs should find a willing ear in the new Russian government which would far prefer to sell oil for hard currency than to other Soviet republics.

It is clear that the Russian Republic's market-oriented young economists will try to sell not just the crude oil but also higher-value-added refined petroleum products. That is why eastern Siberia may be of the greatest interest to petrochemical processors; the former will certainly be favored over those seeking purely extractive investments.

It is time for American business people to start thinking in terms of the Pacific Century, and of America and Russia as neighbors across that shrinking pond. It is also time to stop worrying about Arab oil embargoes and start thinking about how to bring all that Russian oil to world markets. Some Arab nations may be able to withhold their oil for a while to punish the West, but Russia, hungry for development, cannot. ■

Hans Brockard Bildcbcrg SABA

Street scene in Irkutsk, Siberia
More interesting than a barren Middle Eastern desert.

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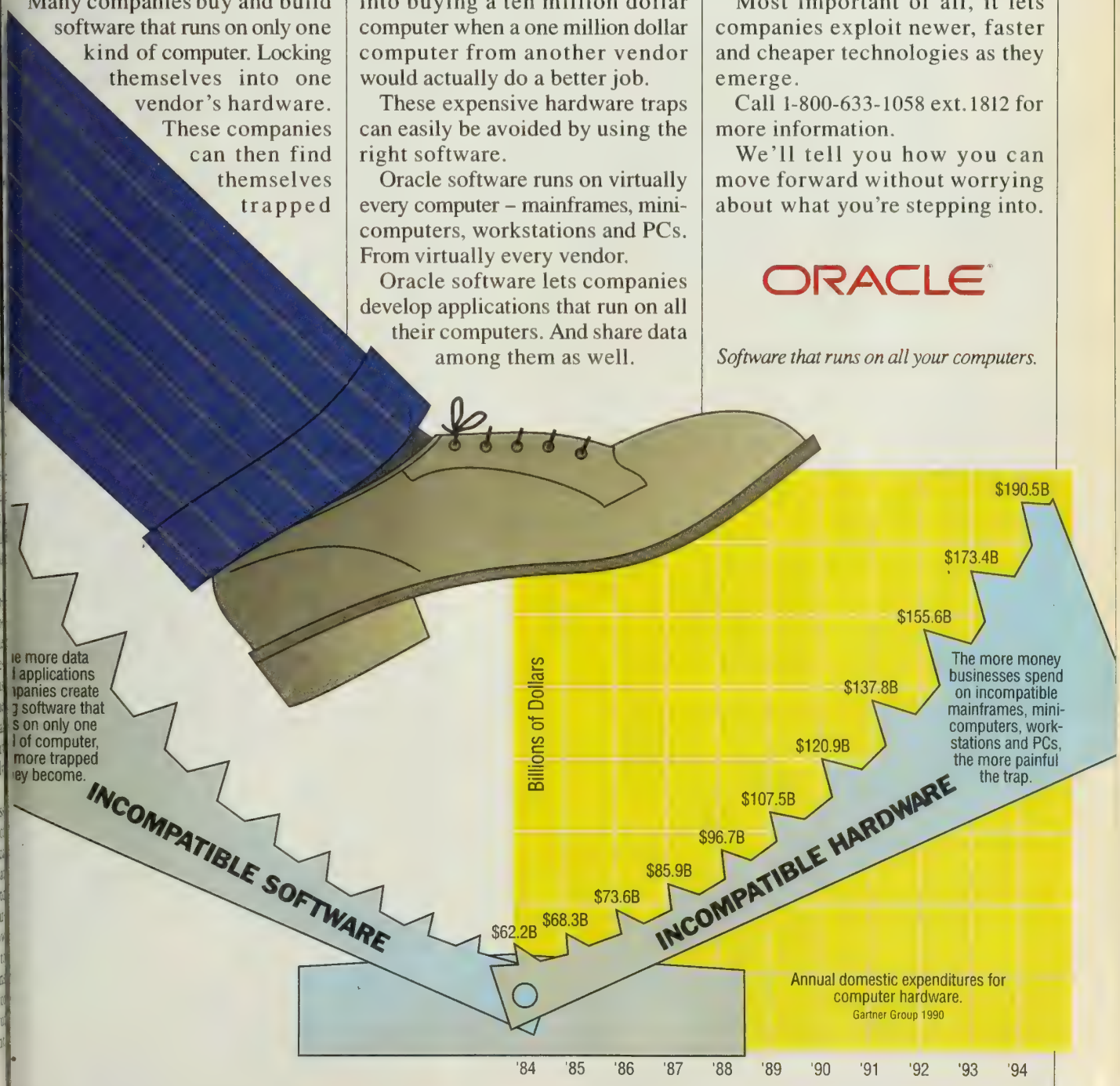

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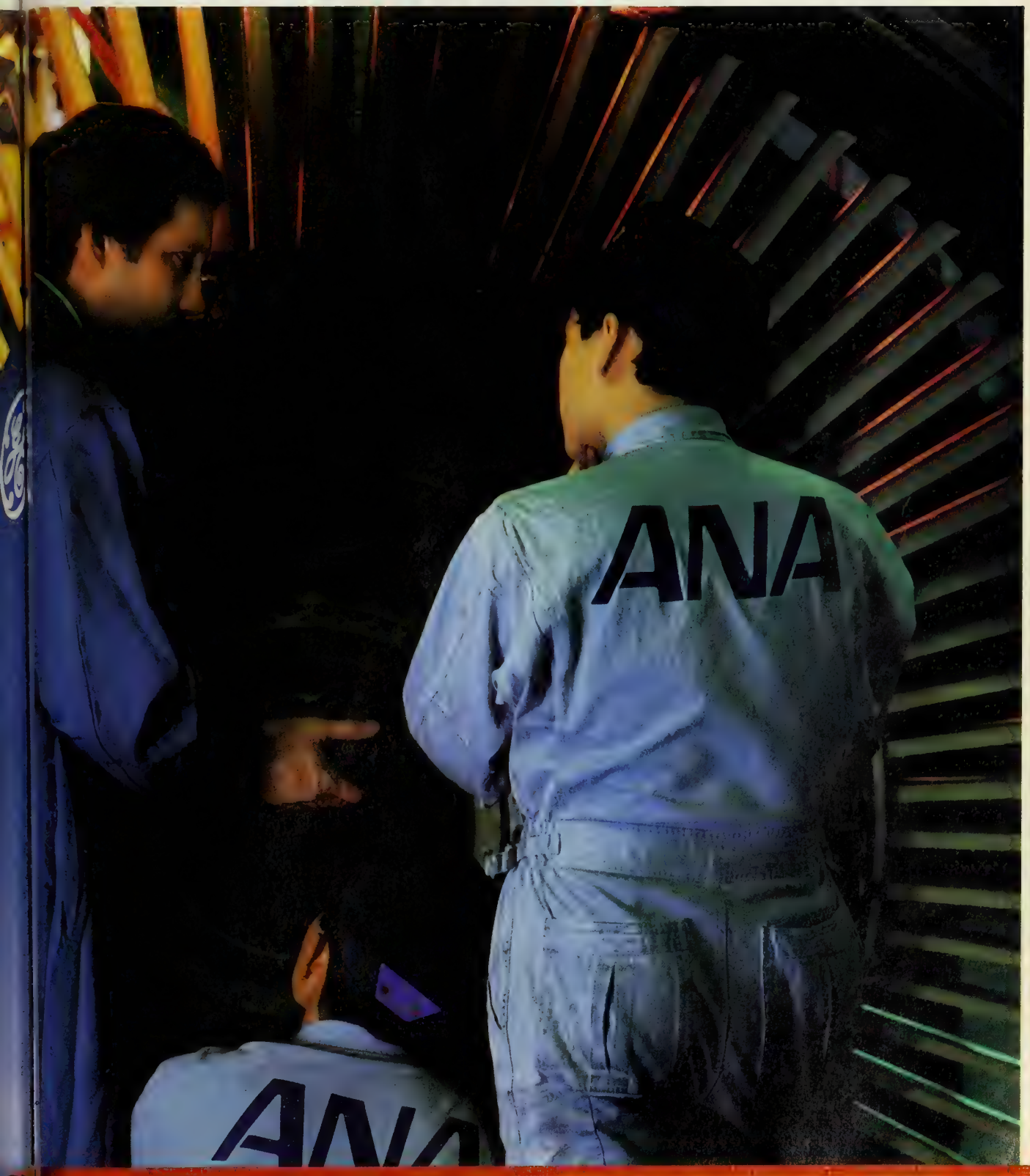


Bank stocks have few friends these days, but some smart money is nibbling at selected bank stocks and bonds.

Where is the bottom?

By Howard Rudnitsky

LAURENCE TISCH and his family are shrewd investors, but even they can get burned. Last year the Tisches bet that the worst was nearly over for Bank of Boston, the stock having fallen from around 30 to 20 a share. They picked up 4.7 million shares, 6.7% of those outstanding, at an average cost of $20 a share. Recently Bank of Boston stock traded at about 9. Such are the hazards of trying to pick a bottom.

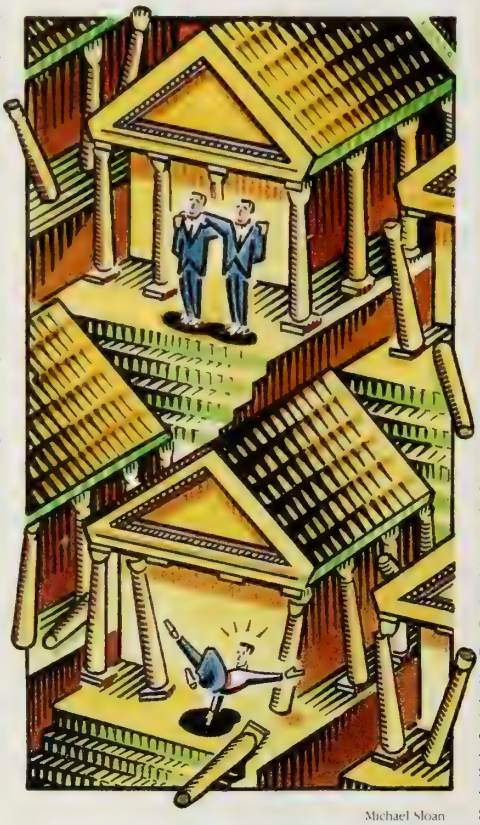
Over the past ten months, other well-known investors have put big money into the depressed shares of big banks like Chase Manhattan, First Bank System and First Interstate, only to see prices drop 10% to 30%.

Apparently the premature bargain hunters did not realize how much more bad news was still in the pipeline. In July a report by C.J. Lawrence analyst Carole Berger said that several big New York banks could cut their dividends over the next year or so. Among the banks on her list were Chase Manhattan, Manufacturers Hanover, Chemical and Citicorp.

Then Federal Reserve Board Chairman Alan Greenspan told the Senate banking committee that bank capital, even at the target 8% level, is too low, and implied that banks had two alternatives, neither congenial: Either they should raise fresh capital or they should shrink their assets.

It's a tough situation. Raising capital is extremely costly today for most banks. Typically, their existing shares sell below book value, and bank holding companies in New England and the Middle Atlantic states have seen their bonds fall so low that they currently yield 15% and more—junk bond levels.

Under these conditions, many stock analysts are advising investors to steer clear of most bank stocks. Others see opportunity, for now at least, in selected bank debt. Several big New York banks have ten-year bonds that offer yields of 11% to 12.5%. Chemical Bank's 10⅜s of 1999, for instance, yield 12.5%. Chase Manhattan's 10s of 1999 yield 12.1%.



Michael Sloan

Why bonds but not stock? Common dividends may be a casualty of the current capital shortages, but bond interest is comparatively much safer. Yes, if a big bank holding company goes under, the bondholder can take a beating: Texas' First Republic-Bank went under in 1988, and the holding company's bonds collapsed.

Nevertheless, with the biggest banks, the "too big to fail" doctrine offers some reassurance to bondholders. This doctrine holds that the consequence of failure by a well-known money-center bank could cause a financial panic. Thus the Fed would go to great lengths to keep that bank afloat before allowing the holding company's debt paper to default.

What about bank stocks? Are there none analysts like? J.P. Morgan & Co. remains on a number of "buy" lists, based on its superior capital strength and strong loan reserves. Recently it traded at $31.75 on the New York Stock Exchange, a price/earnings ratio of 8.5. Another bank likely to fare well despite economic problems in the New York area, says Oppenheimer & Co. analyst Chris Kotowski, is Republic New York, which recently enhanced its growth prospects by acquiring Manhattan Savings Bank (assets, $3 billion). Republic's risk-adjusted capital stands at a solid 12% of assets. BankAmerica's stock has jumped 230% in price from its low in late 1987, but it has a powerful consumer banking franchise in California, and its loan portfolio is thought to have been picked clean of major problems. Mellon Bank has attracted some favorable attention. While many of the nation's largest banks reported sharp earnings declines for this year's second quarter, Mellon managed to stay about flat.

The best hope for most banks today lies in sharply cutting costs and disposing of marginal assets. This process can be enhanced by large bank mergers, but don't look for immediate profits from takeovers. When they do occur, most will involve exchanges of stock without substantial premiums over market.

Today 35 of the largest banks em-

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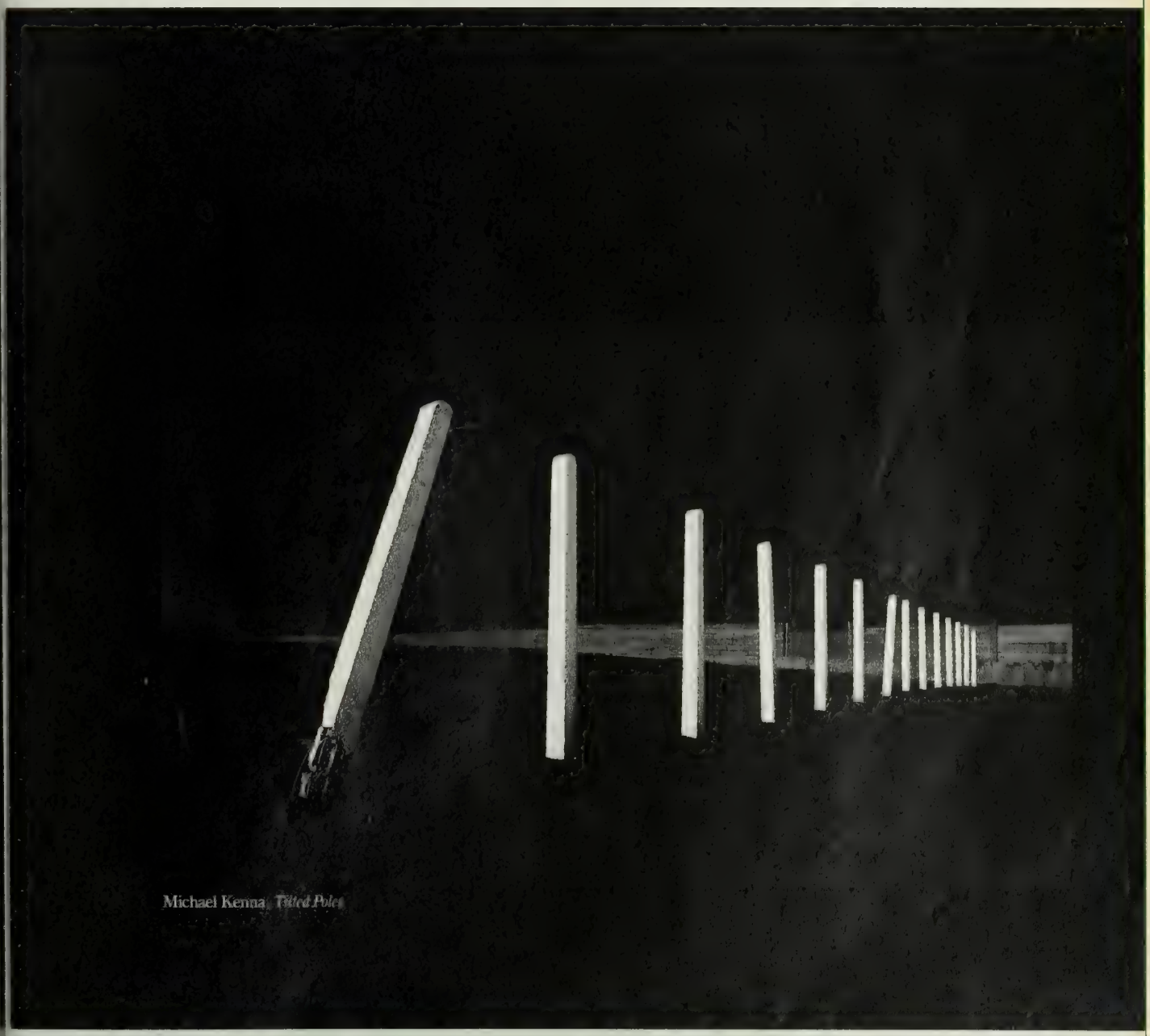

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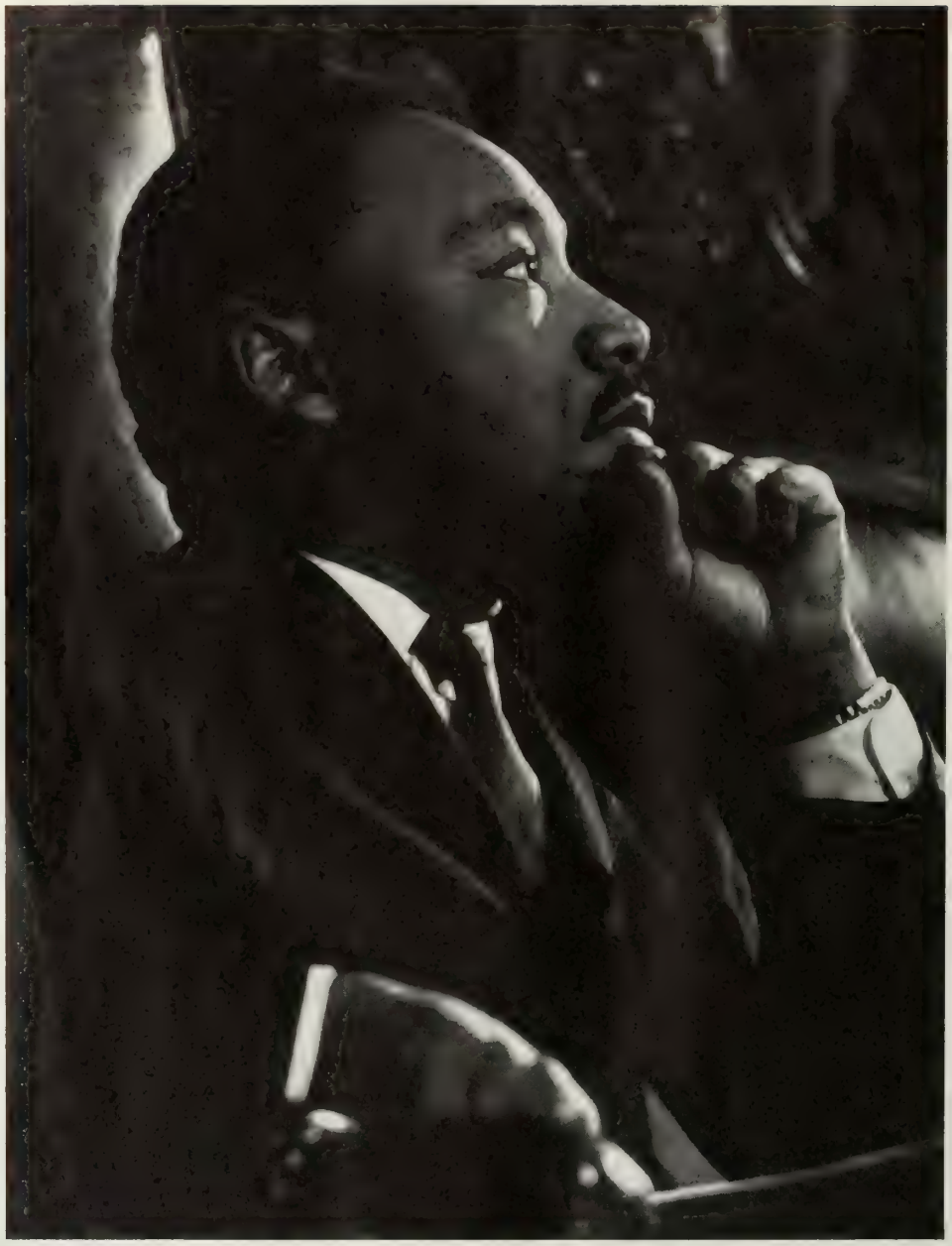

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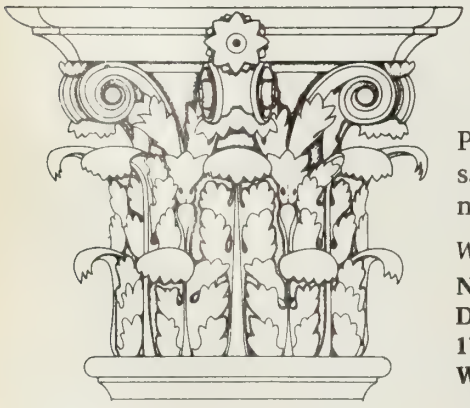

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ploy about 700,000 people. By getting out of unprofitable lines of business, automating and merging, the industry could potentially save $3 billion to $4 billion over the next four to five years. For comparison, consider that the 35 large banks tracked by Salomon Brothers are expected to have aftertax operating income of around $9.6 billion this year.

When will the nation's bank shakeout be over? George Salem, the respected bank analyst at Prudential-Bache, is not optimistic. He thinks the shakeout process could take as long as two years. Says he, "The banks are only in the midpoint of rationalizing the problems of loan quality and other profit pressures." The only banks Salem recommends these days are J.P. Morgan and two regionals, First Wachovia and NBD Bancorp.

Also cautious is Salomon Brothers

Is it too early to buy, even though bank stocks have been slaughtered? "Of such circumstance opportunity is born," says star money manager John Neff, speaking of recent indiscriminate dumping. His Windsor Fund has $1 billion in bank stocks.

analyst Thomas Hanley, who says this is "the worst environment for many bank stocks in more than 20 years." Hanley, however, still likes Bankers Trust and Republic New York, and regional banks KeyCorp, Norwest, Banc One and CoreStates Financial.

Oppenheimer's Kotowski recommends California's Wells Fargo and two underloaned regionals in Michigan, NBD Bancorp and Comerica.

Is it too early to buy, even though bank stocks have been slaughtered? Trying to call market bottoms—like trying to call market tops—is the riskiest of propositions. But some smart money is dabbling. In early August the Tisches picked up another million shares of Bank of Boston stock, this time at around $10 a share *(see p. 224)*.

"Of such circumstance opportunity is born," says star money manager John Neff, speaking of recent indiscriminate dumping of bank stocks. Neff's Windsor Fund has nearly one-third of its assets in financial stocks. He has recently sold a couple of British bank stocks but added to his holdings in Citicorp and BankAmerica; overall, he has retained his large ($1 billion) commitment to the banking industry. ■

Space Age Blacksmith

The mighty blacksmith, working over his forge, has long been the romantic symbol of raw strength and power. But consider for a moment the strength it takes to be a space age blacksmith. Consider the strength it takes to make a metal part which will hold a jet engine in place while it generates over 62,000 lbs. of thrust.

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A major step forward was our involvement in the European Ariane space project. Since the early 1970s, Volvo has supplied the combustion chamber and nozzle for the powerful engines of the Euro rocket. Now we're deeply involved in the latest generation of Ariane rockets which are fuelled by liquid hydrogen and oxygen.

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The next step into space will be a space lane. West Germany and France are urrently waging a hi-tech struggle, with ompeting programs aimed at developing a rue space plane. The odds are excellent nat Volvo will be playing its role in helping ne first space plane take off shortly after ne year 2010.

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What's this? An underleveraged developer who eschews publicity and trophy properties, and who can still borrow money?

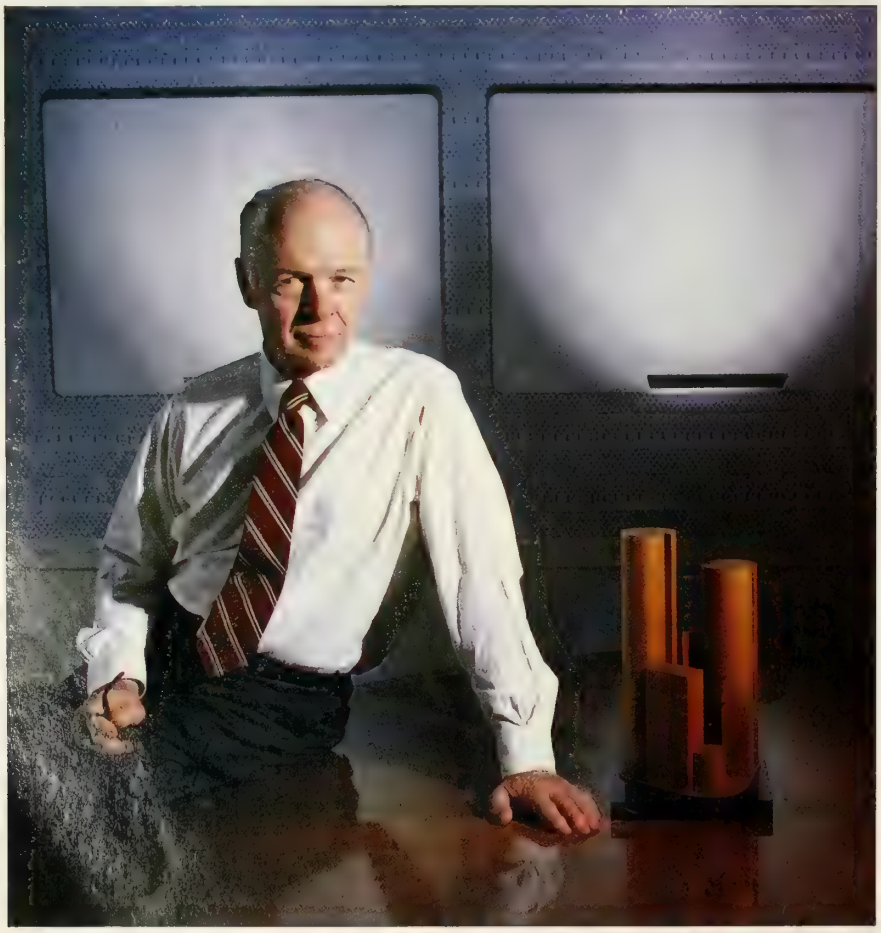
In equity we trust

By Seth Lubove

THE ONLY BUILDING bearing the name of Pittsburgh's billionaire developer, buyout financier and venture capitalist Henry Hillman is the library he donated to the University of Pittsburgh. When a visitor points out a tiny street named after Hillman in a Portland, Ore. industrial park, an aide winces. "Don't tell Henry about that," the aide pleads.

In a business of egos, high-priced publicists and staggering debt, Hillman, 71, has become one of the country's largest, and lowest-profile, commercial real estate developers. Hillman, a contrarian with deep pockets—FORBES estimates his personal worth at around $2.5 billion even under current market conditions—and his team at Hillman Properties concentrate on out-of-favor markets and sites, moving quickly and spending freely to outbid the competition. Once he identifies an idea and the person to run it, Hillman usually opens a checkbook and allows management to develop the project free of home-office meddling.

Mark Peters



Henry Hillman
Moves quickly, spends freely, and keeps his name off the buildings.

Right now Hillman's $3 billion (market value) property portfolio consists of 90 properties in 20 states. The 6.1 million square feet he has under construction include major downtown projects in Boston (to be completed in 1992), Atlanta and Philadelphia. Another multimillion-dollar project breaks ground in Los Angeles next year. In Oregon, where the economy is still bustling from growth in the high-tech and apparel industries, Hillman is the busiest developer. At least 75% of his properties built or under construction are fully leased, and without the usual range of tenant freebies and concessions. Hillman's people say his cash flow is more than adequate to support his debt service.

"I would describe him as a sleeping giant," says John Cushman III, a Los Angeles broker who has sold properties to Hillman.

Hillman did not start poor. His father built a fortune in Pittsburgh's old smokestack coal and coke industries. Back in the 1960s and early 1970s, Hillman used his inheritance to invest heavily in venture capital projects such as Tandem Computers. He also participated in the $100 million buyout of Trailways, while investing in Kohlberg Kravis Roberts & Co.'s leveraged buyout funds. This was long before Wall Street began retailing the buyout concept, and when annual returns to investors were typically 50% to 100% and more.

Real estate development caught Hillman's fancy in a big way in 1974. His timing was good, and his capital base helped mightily. Deep pockets mean Hillman often beats out the competition on choice parcels and gets better financing terms. No mystery here: He can afford to put more equity into the deals. Hillman's thick equity cushions serve him particularly well in depressed markets such as Boston, where credit has slowed to a trickle for most developers. Seeking a $268 million construction loan this summer for his $700 million downtown office tower, Hillman was turning banks away. "We could have gotten four times as many," says Donald Chiofaro, Hillman's joint venture partner for the project.

It is an old axiom that builders will

Allstate Life Insurance rated among top companies in industry.

CHICAGO, IL—
Standard & Poor's, A.M. Best Co., and Moody's published their 1989 annual rating of life insurance companies. Allstate Life received the highest possible rating from all three services.

"Our financials are solid, our position is strong, and we're well managed," says Allstate AVP **Barry Paul.**

Allstate's investment strategy is based on preservation of principal, predictability of current income, and growth of capital and surplus. "Broad diversification has been key to our success," says Paul. "We're just coming off the best year we've had in our history."

Allstate Life gets AAA, Aaa rating

THE RESULTS ARE IN:

Standard & Poor's and Moody's award Allstate Life their top rating for 1989. Here's what Standard & Poor's has to say about Allstate Life's stability:

"Allstate Life's management team has carefully developed and clearly defined strategies."

"Strong business characteristics, conservative capitalization, and favorable financial performance."

And Moody's comments:

"Sophisticated asset/liability portfolio management."

"Strong capitalization."

"Conservative investment strategies."

Allstate's strong performance is

A+ ALLSTATE LIFE MAKES GRADE

The report from A.M. Best Co. about Allstate Life concurs with the other industry experts: A+. A comment from the 1989 "Best's Insurance Reports": "The Allstate group of life companies have long been most ably managed under the direction of capable and experienced insurance executives. The group has achieved steady and healthy growth over the years and enjoys an excellent reputation."

What's the story of your life?

There should be no mystery about the security of your life insurance company. It should be financially sound, stable, and highly rated by the financial experts—Moody's, Standard & Poor's, and A.M. Best Co.

Allstate Life received the top rating from all three services last year. We also enjoyed our most successful year ever. Quality products, customer service, and financial stability have been the story of our life. Call an Allstate agent today and make them the story of yours.

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Allstate®
You're in good hands.

Source: Moody's Insurance Credit Report, April 1989. Standard & Poor's, Rating Analysis, November 1, 1989. A.M. Best Co., Best Insurance Report, Life/Health 1989, 84th Annual Edition.

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MARCH 27

American Express announces Shearson Lehman Hutton will become a full member of the American Express family.

APRIL 26

New leadership sets goals for the 1990s: to be the investment firm most responsive to the needs of each client, that most consistently adds value to every transaction, and whose quality is second to none.

JUNE 6

Two new divisions announced, shaped to meet customer needs: Lehman Brothers — investment banking and capital markets; Shearson Lehman Brothers — individual investor services and asset management.

AUGUST 9

Shareholders ratify unstinting support for Shearson Lehman Brothers as an American Express company and the course its leaders have set for the 1990s. And beyond.

THE INVESTMENT THAT

"Every investment is a statement of faith. Faith in the future, and in the powers of talented men and women to make that future happen.

"Let there be no doubt: The American Express commitment to Shearson Lehman Brothers, their over 9,000 Financial Consultants, and to Lehman Brothers is complete and unshakable.

"As of today, Shearson Lehman Brothers and American Express are one enterprise."

Jim Robinson

James D. Robinson III — August 10, 1990

AMERICAN EXPRESS

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A WILL CHANGE INVESTING

"In the 1990s, how a firm does business will be as important as the business it does.

"Yesterday's acquisition of Shearson Lehman Brothers by American Express raises the standards by which investment firms will be judged.

"Leadership in this decade will be earned by the organization with the most passionate dedication to serving each client as if he or she were its only client.

"We are going to be that firm."

Jonathan S. Linen

SHEARSON
LEHMAN
BROTHERS

AMERICAN EXPRESS ®

Betsy Bassett

Don Chiofaro, Hillman's partner in Boston
He spent two years fighting local bureaucrats.

build as long as bankers will lend to them, which is why real estate is such a cyclical affair. Hillman contradicts the axiom. "There's no pressure on our group to do deals," says Carl Grefenstette, Hillman's longtime chief lieutenant. "If we go six months without doing a deal, that's fine." Nor is there an urge to own trophy properties in trendy markets. When Texas and New York City were hot a few years ago, Hillman passed. "We do deals more on an opportunity basis," Grefenstette explains.

Michael R. Chase, a soft-spoken former Citicorp mortgage lender, runs Hillman's growing empire from modest offices in Newport Beach, Calif. Chase reports monthly to Grefenstette in Pittsburgh, but Hillman reviews everything quarterly and frequently pops in on projects.

Michael Greco/Outline

Michael R. Chase, president of Hillman Properties
"We aren't intimidated."

For most deals, Hillman's financing is about as uncomplicated as a home mortgage. Straight construction loans and long-term mortgages from lenders like Westinghouse Credit Corp. and Citicorp make up the bulk of his debt. The Hillman team sticks mostly to commercial development, with a few scattered retail and residential projects. Hillman builds only from the ground up, and never buys buildings already up and rented. "We're looking for higher-risk, higher-reward situations," says Grefenstette.

Hillman doesn't shy from trouble—sites where the planning, zoning and environmental bureaucrats tie up builders in expensive red tape. Many other builders can't afford the time it takes to deal with these hassles; in effect, Hillman uses the bureaucrats as a weapon against his competitors. In Boston, for example, beginning in 1981, Hillman and Chiofaro struggled for two years to get building approvals, knocking heads with some 150 citizen groups and government agencies along the way. In the end, they agreed to some architectural modifications on the 46-story office complex and had to pay $10 million to relocate a highway ramp that was planned to be where Hillman wanted to build. A number of other developers looked at the site. But only Hillman wanted to tackle the bureaucracy.

"We aren't intimidated," Chase says. "You just work through the rules." Hillman's reward: As of now, 97% of the completed first phase is occupied.

Hillman doesn't lose any time at the closing table either. When Unocal Corp. put 12.6 acres of prime downtown Los Angeles property up for sale in July 1988, several serious bids were made. Hillman's $205 million offer got the nod. It was lower than several other offers, but it was all cash and Hillman promised a fast close. Hillman plans to invest $1.5 billion to build 5 million square feet of office and retail space and a hotel there, with the first phase to open in 1993.

Having survived real estate slumps before, Hillman's people aren't bothered by the latest downturn. "Everything has cycles," Chase says. "The economy, the stock market, real estate. But when it comes back, it comes back strong."

Hillman has routinely put plenty of equity into his projects and hasn't gotten himself hopelessly in debt. Most developers can't say that. They will emerge from the current contraction with their assets severely diminished. Hillman will emerge stronger than ever. ■

MARCH 29, 1994

"Shoemaker, stick to your last." Normally that's good advice, but Melville Corp. has prospered by ignoring it.

Reshaping the last

By Subrata N. Chakravarty

LIKE MANY CLICHES, "shoemaker, stick to your last" has an illustrious ancestry. The 1st-century Roman scholar, Pliny the Elder, told the story of a cobbler who criticized the depiction of shoes in a painting. The painter repainted the shoes. Full of himself, the cobbler then criticized the painter's rendering of the subject's thigh. The infuriated painter got off the great line, "Shoemaker, stick to your last."

Francis Rooney Jr., the now-retired chief executive officer of Rye, N.Y.-based Melville Corp. (he was succeeded by Stanley Goldstein in 1987, but still sits on Melville's board), decided to disregard this venerable advice. For half a century after its founding in 1914, Melville Corp. was a shoemaker and shoe seller. Its shoe store chain, Thom McAn, had a name that was synonymous with value and quality. Remembers Rooney: "They came out with a $4 leather shoe in the 1920s that was a tremendous value."

Katherine Lambert

Stanley Goldstein, Melville Corp. chairman and chief executive
Redesigning, not filling, Francis Rooney's shoes.

When Rooney took over in 1964, however, he looked for other promising avenues for growth. He called in business consultant Peter Drucker. "Drucker advised me quite a bit in trying to define our business and talking about our strengths," Rooney recalls. "With his help we realized that our business was not just to be shoe dogs, or shoe salesmen, but that we had a certain expertise in operating specialty stores. And we have stuck to the concept of specialty retailing." Today, in addition to shoes, Melville sells toys, apparel, household furnishings, prescription drugs, and health and beauty aids.

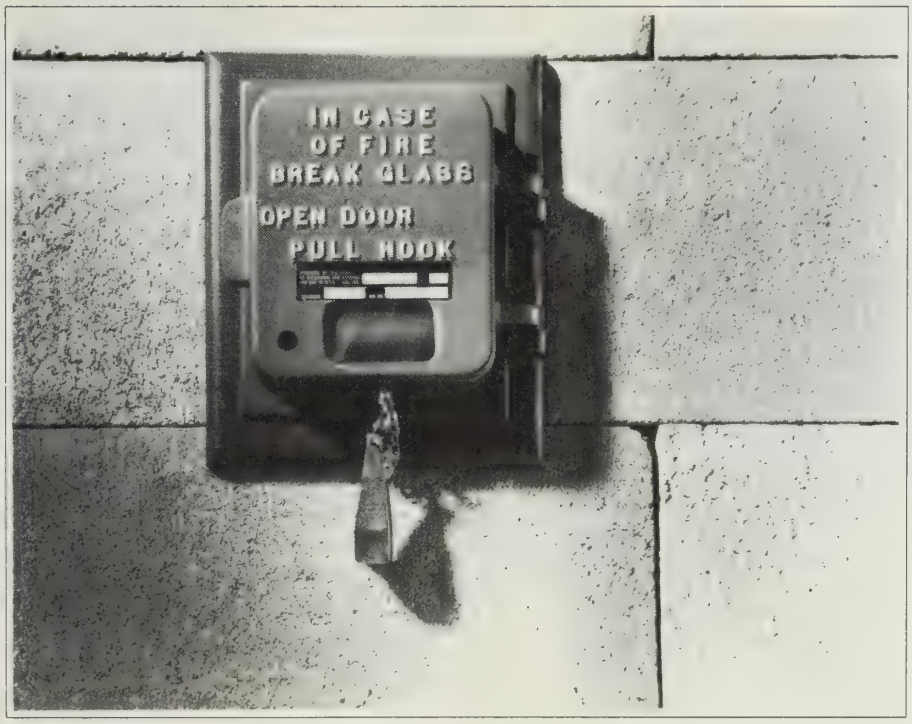
It is hard to quarrel with the results. Last year Melville reported sales of $7.6 billion, its 25th consecutive year of growth. Earnings rose in all but one of those years. For 1989 they were $398 million, or $3.56 per share, making for a compound growth rate of 17.6%. Return on stockholders' equity has averaged a hefty 24.3%.

So far in 1990, Melville seems to have shrugged off the recession that has hit so many retailers. In this year's first half, Melville's sales increased 11.3%, to $3.6 billion, and earnings (before a preferred dividend) grew 9.3%, to $94 million.

"Melville is kind of like the old Green Bay Packers: three yards and a cloud of dust, and at the end of the game they are large winners," says Sanford C. Bernstein retail analyst Richard Baum. "They tend not to be very flashy, but they are terrific executors." Baum estimates that for the full year earnings per share will increase 12%, to $4.00, on a 16% sales increase to $8.8 billion. The stock currently sells for under 11 times Baum's earnings estimate, a discount to the Standard & Poor's 500.

Melville is really a collection of specialty retailing chains. There is Prints Plus (prints and posters), with 1989 revenues of just $32 million. There is CVS (prescription drugs, health and beauty aids), with sales of $1.95 billion. Melville's 15 divisions will end 1990 operating over 8,000 stores.

Rooney began his diversification in 1968 by creating Chess King, an apparel chain for young men. Soon thereafter, Harvard Business School marketing professor Theodore Levitt told him about a Woonsocket, R.I.-based health and beauty aids company called Consumer Value Stores (now CVS). Initially skeptical about Melville's ability to run such a busi-



MARCH 29, 1994

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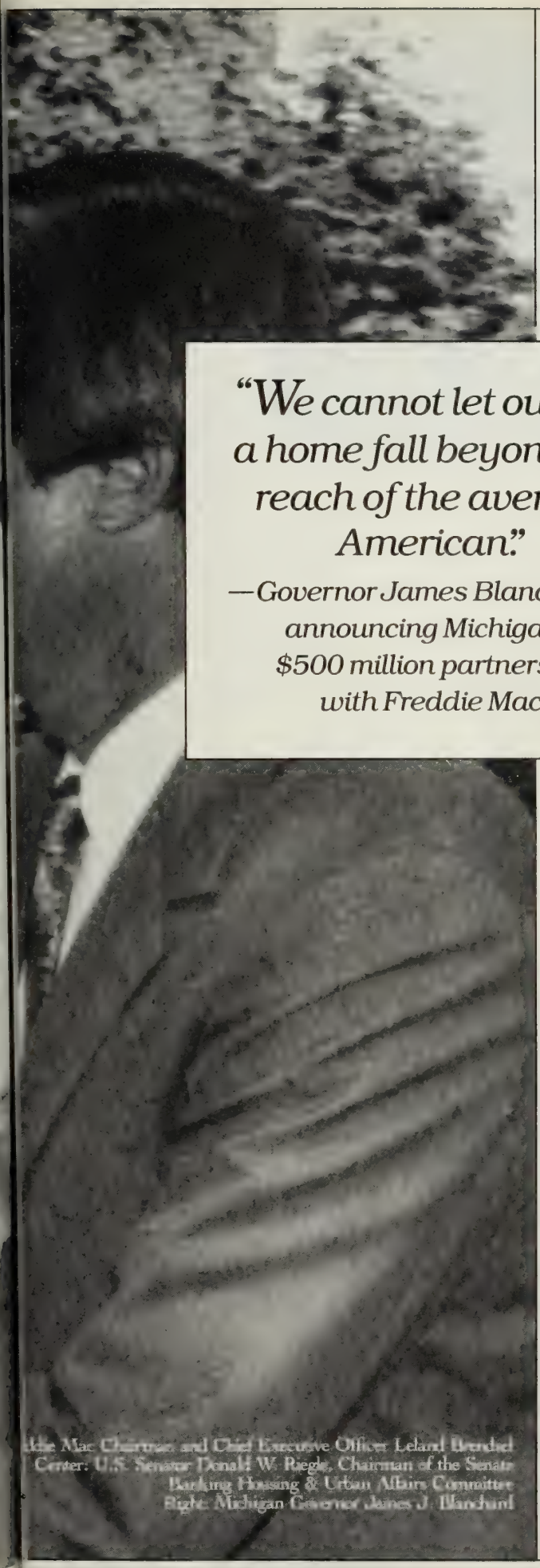

Freddie Mac Chairman and Chief Executive Officer Leland Brendsel
Center: U.S. Senator Donald W. Riegle, Chairman of the Senate Banking Housing & Urban Affairs Committee
Right: Michigan Governor James J. Blanchard

"We cannot let owning a home fall beyond the reach of the average American."

—Governor James Blanchard, announcing Michigan's $500 million partnership with Freddie Mac.

The Michigan Initiative, developed by Freddie Mac in partnership with the state of Michigan, will help to finance homes for as many as 10,000 working families.

The plan offers 30-year, fixed-rate, single-family mortgages to eligible buyers through participating lenders statewide. By modifying underwriting and servicing guidelines, providing homebuyer education and counseling, sharing credit risk, and involving community groups, the plan will allow individuals to have access to financing that would normally be out of reach.

The Michigan Initiative reaffirms Freddie Mac's commitment to low- and moderate-income homebuyers. It will assist lenders in meeting state and federal Community Reinvestment Act requirements, and should become a blueprint for other states to follow.

"Combining Freddie Mac's prudent business practices with this creative and efficient approach to our country's housing problems makes everyone a winner—lenders, borrowers, communities and ultimately, the entire economy," said Freddie Mac Chairman Leland Brendsel. "That's why Freddie Mac is encouraging other state governments to work with us to develop similar programs. It's our continued commitment to homeownership."

For more information, call our new Affordable Housing Initiatives Department at 703-759-8806.

THE IDEA BEHIND ONE IN EIGHT AMERICAN HOMES

Freddie Mac

STEADY FREDDIE℠

ness, Rooney nevertheless agreed to meet the founders. Rooney was so impressed by brothers Sidney and Stanley Goldstein and Ralph Hoagland that he bought their company for $12 million. So capable was Stanley Goldstein that Rooney eventually chose him as his successor.

Rooney went into discount apparel in 1976. That's when he bought Marshalls, one of the nation's first off-price retailers of branded apparel. Marshalls purchases manufacturers' overstock at heavy discounts and passes on the savings to customers.

Photographs by Jeffery Vock

A Melville discount drugstore in a Jersey City, N.J. mall
If a drugstore isn't working, how about leather goods?

CVS and Marshalls became the cornerstones of Melville's specialty store empire. Further acquisitions included Kay-Bee toy stores, Wilsons House of Suede, Bermans (leather outerwear), Accessory Lady (clothing accessories), This End Up (furniture), Linens 'n Things and Freddy's (deep discount drugstores), among others.

Melville's chains are generally moderately or discount-priced, and concentrated in shopping malls and strip shopping centers. The mall-based approach was deliberate. With several different retailing concepts, Melville can run more than one store in a mall. That makes the company a highly prized tenant and helps Melville get prime locations. Moreover, Melville can often switch tactics by switching stores. If Thom McAn isn't clicking at a certain mall, for instance, Melville can replace it with a Wilsons store selling leather jackets.

With Goldstein in charge since 1987, the pace of acquisitions hasn't slowed a bit. At the end of June, Goldstein made Melville's largest buy ever, purchasing Peoples Drug Stores for $330 million. Barely a week later, Goldstein struck again with the $95 million purchase of Circus World Toy Stores, another mall-based retailer.

Both acquisitions were powerful moves. Circus World, with sales of $178 million, will complement Melville's Kay-Bee toy chain. Circus World is strongest in the Southeast, where Kay-Bee is weakest. Melville will now totally dominate mall-based toy retailing and, with total toy sales of $900 million, it will be second only to Toys "R" Us, which prefers stand-alone stores.

Peoples Drug is also a perfect geographic fit. While CVS dominates the Northeast, Peoples is most powerful in the mid-Atlantic states. Between them, they virtually control the chain drugstore business along much of the Eastern seaboard.

Mark this: Melville is not just a conglomerate. Its management style is highly decentralized, but when it buys something, it does so knowing that it can improve the acquisition by applying tested Melville methods. Peoples Drug, for example, has operating margins of around 1.5%, compared with over 7% for CVS, according to Baum. Circus World's margins are a quarter those of Kay-Bee. Baum believes that Melville's operating skills can more than double the margins of both newly added chains within a year or two and can continue to improve them thereafter.

A Marshalls store in Wayne, N.J.
Designer clothes at a discount.

Shoes? Melville remains very much in the business, although it is declining in importance, dropping from 32% of sales in 1985 to probably below 20% in 1990. The number of Thom McAn stores has been cut by a third in the past decade, to 841. Still, footwear has the highest return on assets of any of Melville's business groups, thanks largely to its Meldisco division, which leases and runs the shoe departments of K mart's stores.

The question confronting Melville now is: Which chains, if any, should be dumped so that the company can concentrate on those that show the most promise for growth? Since all the chains are profitable and require little top management attention, there is no urgency to unload any. Still, some don't fit Melville's strengths. Over the years Melville has shown no aptitude for fashion merchandising. Moreover, the company's biggest successes have come from building acquired companies—such as CVS, Marshalls and Kay-Bee—rather than developing chains from scratch.

Chess King, Rooney's original start-up, has grown to only $267 million in sales in 22 years and has recently incurred problems trying to keep up with the increasingly fickle young men's market. Other relatively lackluster divisions: Accessory Lady; This End Up; Prints Plus; Tannery West, which offers high-priced leather outerwear; and Fan Club, Melville's too-little, too-late effort to get in on the name brand athletic-shoe market that Thom McAn largely missed.

This shoemaker didn't stick to his last. Rather Frank Rooney succeeded by redefining the last. Like Rooney, Goldstein is likely now to reshape the last to fit his own foot. Having found Melville's strengths in high-volume and moderately priced nonfashion merchandise, Stanley Goldstein appears to be concentrating zealously on those strengths. ■

What a lift to work should be.

A luxury car should make you feel like you've left the crowd behind. The Lincoln Continental. Even in the gridlock of rush hour, it makes you feel far above it all. Continental is one of the world's most advanced luxury cars. Anti-lock brakes, speed-sensitive steering, electronic air spring suspension and a driver-side air bag Supplemental Restraint System. All standard. For a free brochure, call 1 800 446-8888. Or visit a Lincoln dealer. One drive and you'll see that other luxury cars tend to get lost in the crowd. And that Lincoln Continental is exactly what a luxury car should be.

LINCOLN. What a luxury car should be.

For 55 years Leo Burnett has been creating clever, timeless and heartfelt advertising. Who says you have to be flashy to be good?

Lionizing Leo

By Rita Koselka

IN THE FAST-PACED world of advertising, Leo Burnett Co. seems rather dull, slow and hokey.

Photos, corny sayings and cartoons of the agency's founder—who's been dead for nearly 20 years—decorate the offices. Employees, who call themselves "Burnetters," say things like "That's what Leo would have done" nearly every day. Flashy competitors deride the homespun "critters" that have made up some of the agency's most memorable campaigns (Tony the Tiger, Charlie the Tuna). Worse crime still, the agency is based in Chicago, where no dedicated New York or Los Angeles type would be caught for anything else but a change of planes.

And that's precisely how Leo Burnett wants it. And why, in the often fickle world of Madison Avenue, the agency remains a solid, profitable winner, with surprising loyalty from employees and clients alike. With estimated revenues of $500 million and estimated earnings of about $25 million, it buys more network TV advertising time than any other agency. Two years ago it was named agency of the year by both *Advertising Age* and *Adweek* magazines, the first company ever to receive both awards in the same year.

Leo Burnett has done all this by bucking every trend inherent in the advertising business. It's privately held by employees, thereby eliminating outside interference and expectations. It has avoided the merger trend that has hobbled high-flying agencies like Saatchi & Saatchi. It doesn't pay its 5,700 employees huge salaries, relying instead on bonuses, profit sharing, company stock and other benefits to keep everyone feeling warm and fuzzy. It seems to work: The average senior manager has been there 20 years, and just under a third of the people who currently work in U.S. offices have been at the firm ten or more years.

Photo by Fabian Bachrach

Founder Leo Burnett and friends
His spirit and drive have lived on.

Perhaps most important, in a shocking departure from advertising norms, Burnett emphasizes good old-fashioned midwestern values and teamwork rather than fostering individual egos—eliminating some of the prima donna problems that often beset creative businesses.

It all began in 1935, when Leo Burnett, a copywriter who became a creative director, opened his own little agency in a makeshift office in Chicago's Palmer House Hotel. He had eight employees and three clients. On the receptionist's desk was a bowl of apples for visitors and employees—a nice Depression-era touch the agency retains today. First-year billings were $600,000. Last year's were $3.2 billion, and the apple count was 700,000, given away in its 50 offices worldwide.

Management is in the hands of an 11-man team led by Chairman Hall (Cap) Adams Jr. Half the team are on the creative side, the artists and writers, and half are account people, who work on a client's marketing plan.

Four years ago, to help articulate what had made the firm so successful over the years, two top officials gathered up the 2,000 or so memos, letters and other documents saved by previous managements. Working out of one manager's summer home, they divided and classified everything by topic and distilled it all into a policy statement of about 25 pages covering each aspect of the business. (Sample: "Clients—We will limit the number of clients we serve so that we become deeply involved in each of their businesses as partners and not suppliers.")

That policy translates to a domestic client list of only 31 companies, including such blue

THE TRAVELERS HAS BEEN RANKED AS ONE OF AMERICA'S TOP INVESTMENT MANAGERS FOR FIVE YEARS RUNNING.*

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Over 5,000 clients entrust us with their assets and they all make the same demand—performance. Performance that is strong and consistent. Performance that is backed by $50 billion in assets. 125 years of experience. And a commitment to customer service that gives our clients what they value most—financial peace of mind.

*Based on SEI ranking of our Diversified Portfolio Management program (balanced fund universe).

The Travelers Companies, Hartford, Connecticut 06183

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WHAT DO YOU GET WHEN THE AERODYNAMICS OF A TRUCK APPROACHES THAT OF A BULLET?

THE MODEL 372

**A breakthrough in aerodynamic design. *Dramatic fuel savings. *A swing-up nose for easy service. *262-cubic feet of luxurious interior space. *The high-efficiency vehicle that redefines the meaning of the word productivity.*

Class Attracts Class

Peterbilt

A DIVISION OF PACCAR

Kevin O. Moore

Leo Burnett's executive committee
Creating "big, enduring ideas."

chips as Philip Morris, Procter & Gamble, Kellogg and Hallmark Cards. Most other agencies of its size average over 100 clients. Burnett's clients have stayed with the agency an average of 20 years—by any measure a remarkable achievement. And 88% of its annual revenue growth over the last five years has come from new business for existing clients.

Working closely with clients often means helping develop new products. In the early 1960s Burnett helped Union Carbide create Glad bags, the first plastic food storage bag. More recently it was instrumental in Procter & Gamble's development of the "his and hers" lines of Luvs disposable diapers.

The agency prides itself on what it calls "big, enduring ideas," like the Marlboro man ads, which are so well-known now that some don't even mention Marlboro. Other hits have included Morris the Cat—for Heinz' 9-Lives cat food—and "Friendly Skies" for United Airlines. Its current award-winning United campaign features realistic little stories—like the manager who hands out United tickets to employees with orders to visit all their customers.

Burnett admits its management style is slow and detail-oriented. It took the company years to expand overseas, and it only recently brought in a top manager to run direct marketing, a staple of any big agency. But in typical Burnett fashion, instead of buying a direct marketing firm and keeping it as a separate unit, the agency hired the best person it could find on the outside and built up the function internally, integrating it with the rest of the firm.

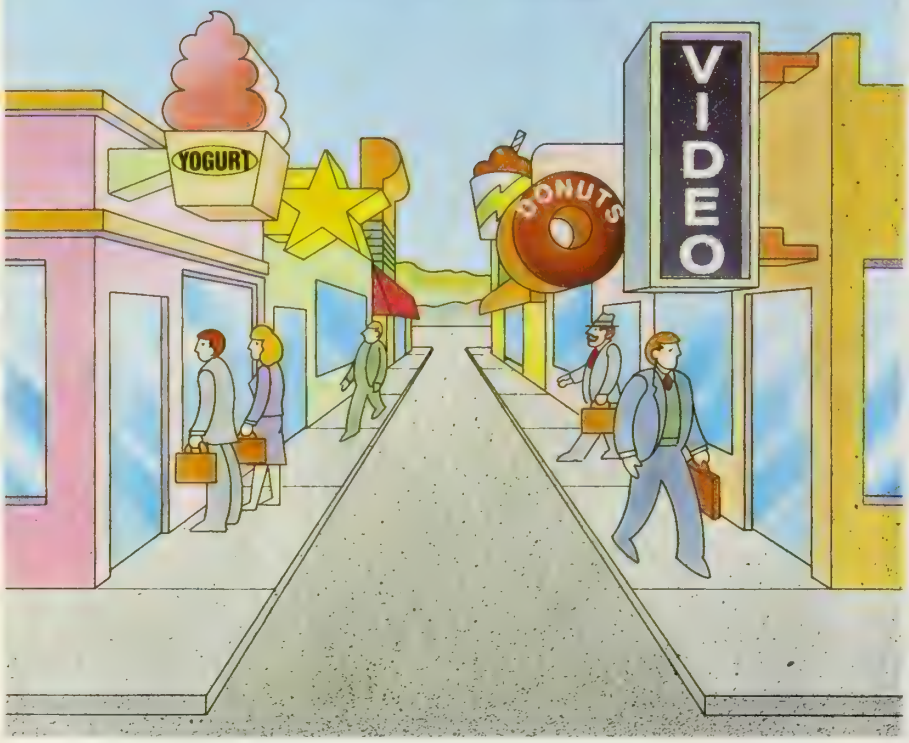
Regional account and creative directors meet several times throughout the year, and all the creative people from midlevel up, some 120, meet yearly on an outing called Camp Leo. There they review over 1,000 of the ads produced by Burnett the previous year to keep the ideas current and improving.

Programs such as Camp Leo instill the founder's motto: "When you reach for the stars you may not quite get one but you won't come up with a handful of mud, either."

In short, the Burnett agency has accomplished something that has eluded so many other businesses: It has managed to keep the spirit and drive of the founder alive and well almost two decades after the founder himself passed on. Most such efforts end in parody. In Burnett's case it has ended in success. ■

THE FRANCHISE OPTION

Career Alternatives Abound in the World of Franchising



BY GREG MATUSKY

There is a new playing field in corporate America that is opening career opportunities to anyone who aspires to own a business. Franchising, the marketing system that now accounts for more than one-third of U.S. retail sales, has emerged as *the* preferred method for professionals to live their entrepreneurial dreams.

"I had a lot of options in corporate America," says James H. Jackson, a Chicago franchisee of PIP Printing, who has worked for Pepsico, ITT, Citibank and Cigna. "But I wanted something to wrap my arms around, a business that I could embrace. I realized that if I didn't act soon, I might never get the opportunity."

Steve Szulhan, who owns four I Can't Believe It's Yogurt franchises in New York State, learned a similar lesson. He left a prosperous career in mergers and acquisitions with Beatrice Foods Inc. to sow his entrepreneurial seeds in franchising. "I realized that if I was going to work 60 hours a week, I might as well be in my own business," says Szulhan.

These professionals are not alone. Industry observers report that a record number of corporate executives are turning to franchising as an alternative to scaling the corporate ladder.

"Franchising is attracting professionals who only five years ago would have dismissed the option," says Craig Slavin, president of Franchise Architects, the franchise consulting arm of Arthur Andersen & Co.

"Corporate downscaling has put competent professionals on the street. Many are opting for the systems, methods, procedures and security of franchising. At the same time, franchise companies have matured. They now are professionally managed organizations, which is an important selling point to corporate executives in search of new, but stable, opportunities."

To support his thesis, Slavin cites a recent survey his firm conducted of 238 franchise companies. It revealed that nearly 40% of responding franchise companies had the internal controls and organizational structure necessary to qualify them as Phase III companies, an Arthur Andersen designation for companies destined to grow.

"The results reveal that many franchise companies use the same professional management strategies as their company-owned counterparts," says Slavin.

Here's an overview of some of the country's leading franchises with their game plan for future growth.

Alphagraphics: Leading the Way

Just how prevalent is franchising's newfound professionalism? Take, as a case study, Tucson-based AlphaGraphics Printshops Of The Future. The company has virtually rewritten the franchise handbook on attracting quality franchisees by playing off its professional image. Recruitment advertisements tell of the Harvard MBAs who have bought AlphaGraphics franchises, and the company works closely with out-placement firms to help corporate refugees find new homes in franchising.

But behind the image and innovative marketing is a steadfast commitment to leading-edge technology. For instance, AlphaGraphics was the first franchised print company to foresee the potential of desktop publishing and has linked its computers via satellite. The ensuing communications network allows franchisees to beam work to one another anywhere in the world, even to AlphaGraphics' Moscow shop.

Dunkin' Donuts Finds New Life

But leading-edge technology isn't the only benefit franchisors can offer their franchisees. The ability to identify new opportunities is equally important. For instance, when Dunkin' Donuts realized four years ago that franchisee costs were escalating at a troubling rate, it moved quickly to revamp its 40-year-old concept.

"We needed to find new, profitable distribution strategies," says Philip Bennett, national director of corporate development.

The company scrapped its traditional free-standing buildings. In their place, Dunkin' Donuts adopted a satellite store concept that established one production facility and a number of satellite locations that retail products from carts at malls and food cases at hospitals, colleges and convenience stores.

The result of the change? Dunkin' Donuts, which had been opening about 100 units a year, plans to double that rate during 1990.

PIP's Transformation

Strategic realignments are nothing new to today's progressive franchisors. PIP Printing, one of the nation's largest print franchises with more than 1,100 centers nationwide, understands that change is good, if it's managed effectively. The company recently completed a metamorphosis aimed at repositioning itself from a quick printer to a full-service business printer with complete graphic arts and reproduction capabilities. The revamping included changes to the company's menu of services, logo and store design, as well as the introduction of an array of advanced technology.

But the changes were not made in a vacuum. Rather, PIP consulted with the people who would live with the new look: its franchise owners.

"One of franchising's greatest benefits is that it provides a network of professionals who can identify and capitalize on change," says Doug Reiter, senior vice president of marketing at PIP.

Gaining in Weight Loss

But change isn't important to all franchises. In fact, the best thing some franchises can do is stay the course. Take, for instance, Physicians Weight Loss Centers of America, Inc. Founded in 1979, the company has grown steadily by serving an ever-expanding market: overweight Americans.

"Americans are more overweight than ever," says Chuck Sekeres, president and founder. "And children are even heavier than their parents."

Consequently, Sekeres predicts that the industry will grow 18% by 1992, increasing the number of Physicians Weight Loss Centers from its current 450 to more than 1,200.

"Our game plan is to build consumer name recognition in the markets where we already have a foothold," says Sekeres. "If we can become the first name that consumers think of in weight loss, then we will achieve our ultimate goal of supporting 2,000 centers by the year 2000."

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Scooping in Profits

Skyrocketing demand is also responsible for the dramatic growth of frozen yogurt. The industry, which was virtually non-existent in the early 1980s, today generates sales in excess of $1 billion a year. And leading the pack is I Can't Believe It's Yogurt, the Dallas-based chain of 348 stores.

The company, which spent nearly six years developing its products and procedures before franchising, plans to open 130 U.S. stores this year, according to Dan Corrigan, vice president of marketing. The key to its growth? A newly recruited management that teams the company's original owners, Bill and Julie Brice, with veterans of the franchised fast-food wars.

"When you're aiming for thousands of units, it's best to have a team that has been there before," says Corrigan. "We are firmly positioned as the premium brand in the market. Now we have the management to take the company to new heights in sales and customer awareness."

New Directions in Video

While industry growth is the impetus behind many companies' franchise pursuits, the potential for consolidation can also turn a firm toward franchising. In the video rental industry, experts believe that the 1990s will be a time of conversion and consolidation. Erol's Video, a 207-store video rental chain that just announced franchise plans, hopes to use franchising to capitalize on the new realities.

"We are witnessing a changing of the guard in the video rental business," says Troy Cooper, vice president of sales and new business development. "Small independent video businesses are losing out to large chains. Only three or four major players are going to survive, and franchising is our strategy for becoming one of the lucky few."

Erol's, which is based in Springfield, Va., plans to retain its company-owned stores and use franchising to develop peripheral areas where the company has a limited presence.

"Market share is the name of the game in video rental, but you can't develop market share with only a few stores in a given market area," says Cooper.

"We already have a strong core of stores that offers prospective fran-

chisees immediate name recognition for their businesses, and a customer base that knows and trusts our product and service. That's a great benefit to anyone thinking about owning a business."

Cleaning Up in Commercial and Residential Cleaning

Demand is also expected to increase in the home and commercial services sectors of franchising. As businesses slash costs by farming out ancillary services, and as America's dual-career families struggle to find more time, franchising's service providers stand to make big strides during the 1990s.

"We are growing at a compounded rate of 50% a year," says Rick Forster, vice president and chief financial officer for Servpro Industries Inc., one of the nation's largest commercial and residential cleaning and fire restoration franchises.

Servpro, which sponsors 750 locations, is adding six to eight new franchises a month. "Our growth will continue regardless of the economy," says Forster. "In slower economic times, we boom because consumers and businesses clean and restore their old furniture and facilities instead of investing in new products."

A People Business for Professionals

Behind franchising's many successes remain the people who make the marketing system work. And more and more of those people are corporate refugees who find owning a business an exhilarating way to live.

"Our focus has been on executives who no longer want to live in the ranks of corporate America," says James Money, president of Snelling and Snelling Inc., the temporary and permanent placement franchise based in Sarasota, Fla. "We need people who understand how to deal with business clients, both big and small, and who want to meet people through the marketing of their business."

According to Money, former corporate professionals are better able to manage a growing business or multiple locations. "They don't cringe from challenges. They welcome growth as an opportunity for personal and professional development."

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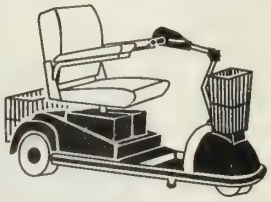

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Riding the Gray Wave

But not all of franchising's growth will come from the expansion of mature concepts. Dynamic new ideas and businesses are bound to light up franchising during the 1990s. One of the newest concepts is Electric Mobility Corp. based in Sewell, N.J. The company markets three-wheel scooters to older and handicapped Americans who have difficulty walking.

And don't underestimate the market. According to company President Mike Flowers, there are more than 43 million handicapped people in the United States. As Americans age and live longer, more and more will need alternatives for personal transportation.

"We're coming to market at the right time," says Flowers. "Congress has mandated that public businesses provide access for handicapped Americans. That means supermarkets, malls, amusement parks and other businesses will need products such as ours or risk violating the law."

Rolling Out Red Carpet Service

West Coast Video, a veteran video rental franchisor, is pointing to the "ultra" store concept to lift the chain to new levels of sales and profitability.

According to John L. Barry, vice president of franchise development, the superstore concept that spurred the growth of some video rental chains during the 1980s is a thing of the past.

"Our new ultra stores go beyond the superstore concept by providing customers a red carpet level of service and video selection."

Barry says that superstores, which typically market between 8,000 and 10,000 titles, are too big and unfocused to be profitable. "Our ultrastores carry 7,000 titles, most of which are hits. That's the type of mix you need to be profitable and that's the type of business we're providing our franchisees."

The Franchise Options

As corporate security becomes a thing of the past, entrepreneurship is proving a powerful draw for those inside corporate America. Franchising's prolific success makes it the investment vehicle of choice for professionals who want to jump from the corporate ladder and live the dream of business ownership. ■

Greg Matusky is a business writer and consultant based in Ardmore, PA.

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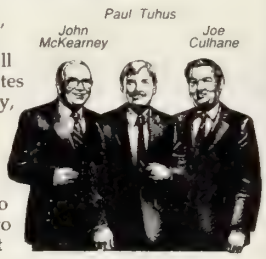

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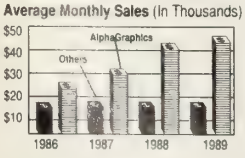

A comparison of the average monthly sales of AlphaGraphics locations to all other quick print franchises over one year old. Source: U.S. Dept. of Commerce, Franchising in the Economy, 1986-1988, and AlphaGraphics Uniform Franchise Offering Circular, 1986-1989

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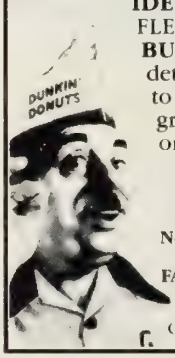

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Worries

Marty Greenwald is betting big that laser discs will soon rival cassettes for viewing movies at home. But will bigger competitors move in to squeeze him out?

A shady past, a questionable future

By Lisa Gubernick

THESE DAYS the hottest new toy in Hollywood is something called the combi player. Made by Pioneer, Sony and others, it's priced as low as $500 and allows users to play CDs for music and laser discs for movies. RCA briefly brought video discs—similar to laser discs—to life in the 1970s, but the technology was too expensive to make them competitive with VCRs. Now the LP-size discs are back, with improved sound and images, and they're more popular than ever. Not only do they last longer than videotapes, but their quality is also far superior.

While the number of households with laser disc players pales in comparison to those with VCRs—460,000 versus 72 million—the laser disc growth is rapid, up from 150,000 just three years ago. Sales are expected to climb even higher as the disc players drop in price.

John Lwiey Outline

Image Entertainment's Marty Greenwald
From Saddle Tramp Women to laser discs.

All of which goes a long way to explain why little Image Entertainment Inc. has been one of the year's hotter stock plays. The Chatsworth, Calif.-based company distributes the discs, which generally retail between $29.95 and $39.95. Disc sales have exploded over the last five years, pushing Image's revenues along from $2.3 million in fiscal 1986 (ending Mar. 31) to $28.1 million last fiscal year. Image's share price has moved along quite nicely, too, from 31 cents in 1989 to a recent 62½ cents. Total market capitalization is about $100 million.

"I think laser discs are the technology of the future," says Image Chief Executive Martin Greenwald, the flashy 48-year-old former stockbroker and porn theater operator who divides his time between condos in Las Vegas and Beverly Hills.

No less savvy an investor than Metromedia Chairman John Kluge agrees. Over the last three years, through a complex series of debt-turned-equity investments, Kluge has bought

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nearly 40% of Image's shares. His $10 million investment is now worth about $40 million.

Needless to say, most everyone pushing the stock these days uses Kluge's investment position as a key part of their sell. Other big investors, such as Capital Guardian Trust and the California State Teachers Retirement Fund, barreled in after Kluge, convinced that the tiny company, the only pure play in the laser disc business, will make millions.

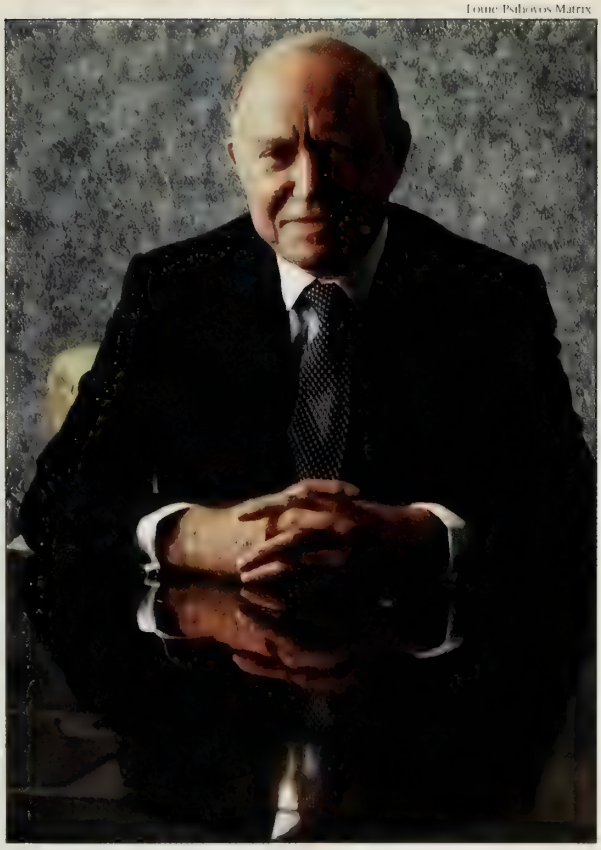
No question: Image is a pioneer. But pioneers don't always cash in. As the laser business grows, the major film distributors will want to get into the business themselves, putting the squeeze on the middlemen like Image. Which is exactly what happened to Vestron, an independent videocassette distributor. Once the major studios realized video's value, they got into the business themselves, eliminating the need for Vestron, which is now about to be absorbed by Live Entertainment. Another possibility is that big videotape wholesalers will get into the laser disc business, thereby putting even more pressure on Image.

"When the business gets big enough, the major studios will distribute their own discs," says Capital Guardian's Gordon Crawford. Could Image become another Vestron? "It's a concern," admits Crawford.

Greenwald's response? He says he'll offer equity in Image to the majors so that they can share his success. So far there have been no takers, and it's not clear there will be. As one video executive at a major studio says, "Why buy his operation when we can just as easily do this ourselves?" Indeed, Image's most recent catalog provides a list of retailers who handle laser discs—a handy road map for any distributor who might want to get into the business, Image having done the pioneering.

Image's roots go back to 1981, when Greenwald assembled a $120,000 investment pool that included three of his old buddies from the porn film business. A former stockbroker and adult theater operator, Greenwald made his mark in movies as a partner at Miracle Film Distributors, the company that produced *Insatiable*, which starred Ivory Soap-girl-turned-porn-queen Marilyn Chambers, and *Saddle Tramp Women*, which Greenwald cheerily describes as a sort of "*Gunsmoke* with a nude Miss Kitty." What does Greenwald say about his involvement in the adult film industry? "I have mixed shame [and] nonshame about my involvement," he replies, "but it served my needs and purposes in the 1970s."

Louis Psihoyos/Matrix



Metromedia's John Kluge
Image's biggest shareholder.

Douglas Kirkland/Contact

Porn star Marilyn Chambers
One of Image's first investors.

Porn star Chambers and her then-husband, Charles Traynor, were part of the investment pool that financed Image. Another of Greenwald's early investors was Thomas Sinopoli, an adult film producer. Chambers, her former husband, Sinopoli and company are still members of a voting trust that is controlled by Greenwald and another Image executive. The trust expires next year.

Image's beginning was hardly auspicious. The company got its start by acquiring a shell that had been taken public by notorious penny stock broker Meyer Blinder in 1978. For the first few years Greenwald and his partners used the company as a video and TV distributor for some of their porn films.

In 1983 Greenwald saw a demonstration of Pioneer's laser disc player. A light bulb went on. Here was the wave of the future. Among Greenwald's first laser disc releases was a version of *Insatiable*. Later he started buying up licenses for general release pictures both from the independent and the major studios.

One who provided Greenwald entrée to the studios was Dino Conte, an independent film producer well connected in Hollywood, with reputed ties to organized crime. "He opened a lot of doors for us," Greenwald says. In return, Conte got options to buy 500,000 shares in the venture for 4 cents a share.

Enter John Kluge. Greenwald knew Image needed more capital if it was to get more product. Through a friend, Greenwald met Stuart Subotnick, Kluge's right-hand man, at an East Hampton, N.Y. brunch.

Subotnick was impressed. He told Greenwald that if he divested his holdings in the adult business—Greenwald was still part owner of Miracle Film, and landlord of several adult theaters—he and Kluge would consider investing in the company. Greenwald sold, and on Dec. 29, 1987 Kluge made the first of his nine investments in Image.

All the early investors are sitting with good paper profits. What of the future? The better it looks, the more competition will move in. To the early investors, we'd say, borrow a line from that old Woody Allen movie: Take the money and run. ■

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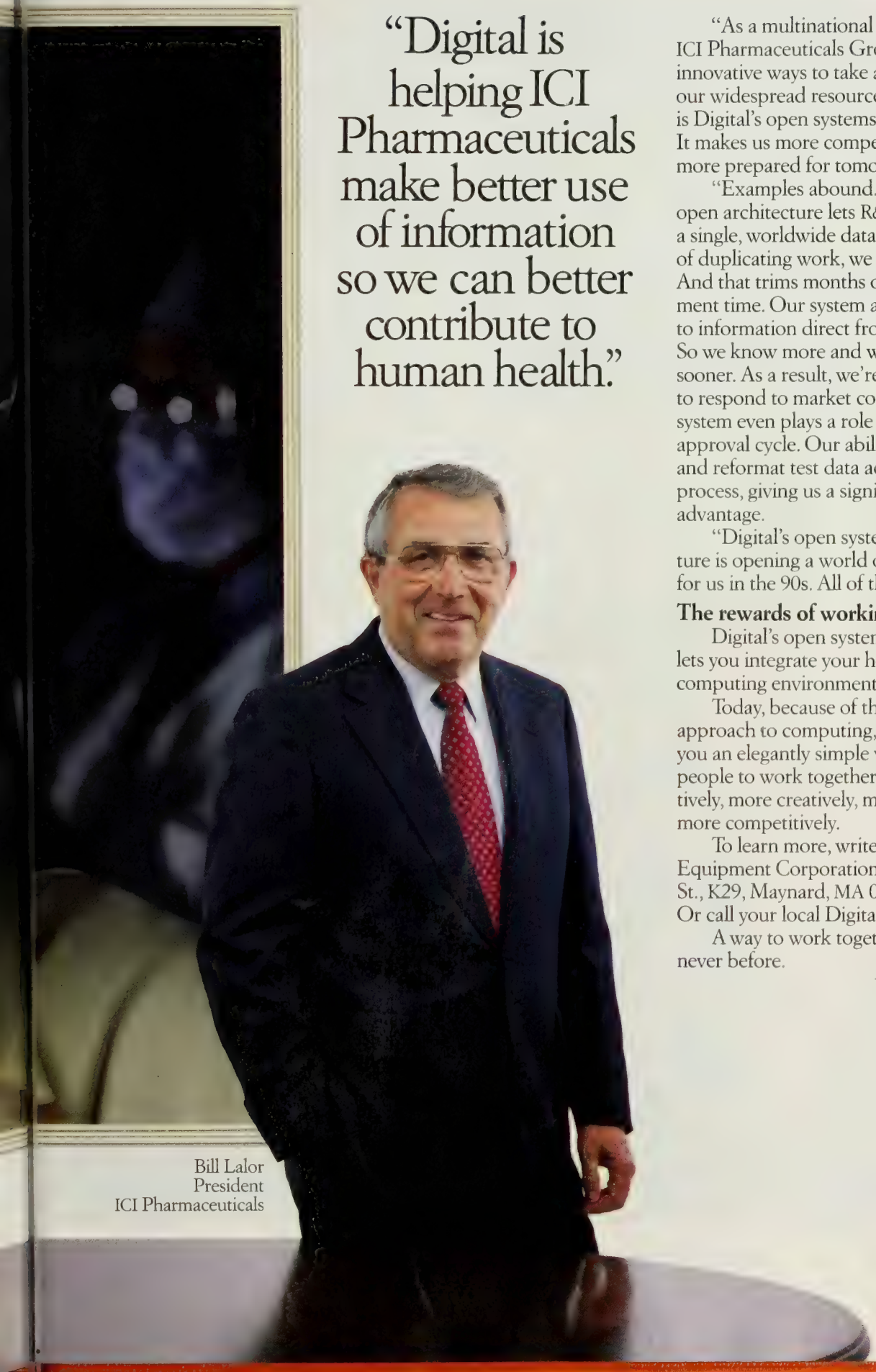

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Mom-and-pop publishing

By Fleming Meeks

ANYONE WHO'S PAUSED a moment before grabbing a paperback in an airport knows that the price of books is going through the roof.

Over the past 20 years book prices have risen at double the rate of inflation. Popular paperbacks, which cost less than a dollar in 1970, now routinely sell for $5.95. And last month Random House said the retail price of some of its mass market paperbacks would soon be jacked up to $6.95. Larger-format trade paperbacks frequently cost $12.95 or more.

Bucking that trend is little Dover Publications, Inc. Last month the privately held Mineola, N.Y.-based publisher launched a new series of trade paperbacks, called Thrift Editions. The series, which is expected to grow to over 100 titles within four years, includes such unabridged classics as *The Red Badge of Courage, The Importance of Being Earnest* and *Heart of Darkness.* The price: $1. Thrift Editions may be cheap, but they are not garbage. Every book published under the imprint is at least a minor classic.

Dover will publish some 300 additional books this year. The company's real stock-in-trade—80% of revenues—is an eclectic backlist of 4,000 titles on art, science, crafts, chess, music and architecture. In part because some of these are in the public domain—and hence require no royalty payments—Dover's books sell for at least 30% below comparable books in the retail market. Examples: Albert Einstein's *Principle of Relativity,* which sells for $4.95, a 208-page large-format score of Bach's *The Well-Tempered Clavier* for $8.95 and a lushly illustrated, 750-page *Chinese Pottery and Porcelain* for $15.95.

How does Dover do it? "I don't know how we can do it, really," says

Eddie Keating

Dover Publications' Blanche and Hayward Cirker
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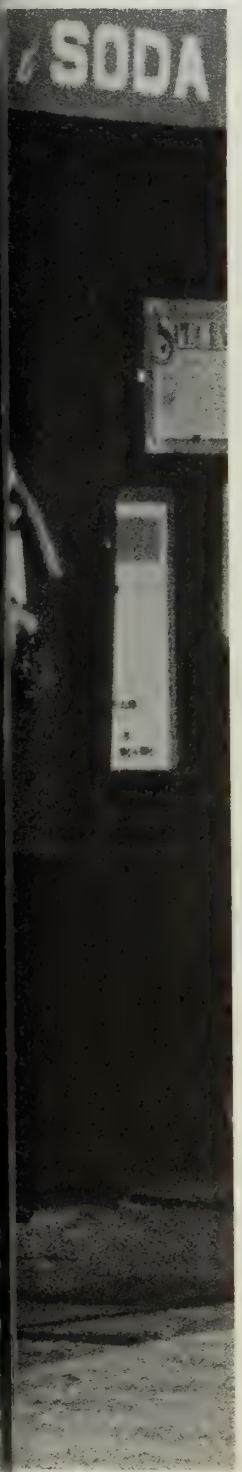

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STRIVE is there for the people who believe they have little or no hope of ever joining the productive work force. And through some very unconventional techniques, STRIVE improves their overall presentation, restores their self-image and helps them realize their strengths and capabilities.

What's more, STRIVE then places them somewhere they never dreamed possible—in a real job.

Philip Morris Companies Inc. appreciates what STRIVE is doing for the disadvantaged. Not to mention the labor force. And we're proud to support their efforts. If you'd like to do the same, you can write to: STRIVE/East Harlem Employment Service, 173 East 112th St., New York, N.Y. 10029. Or call: (212) 369-5500.

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73-year-old Dover President Hayward Cirker. But Cirker is being coy. The company he founded in 1941 has prospered for nearly five decades by holding down costs and by publishing obscure titles—many of which sell fewer than 1,000 copies a year—that big commercial publishers steer clear of. "We don't have a very hefty overhead to put on the books," he explains. Cirker's tiny and spartan office in Mineola would seem to bear him out. Dover's cluttered editorial offices in a shabby Manhattan industrial building tell the same story.

Cirker's wife, Blanche, 72, has worked with him at Dover since 1953; the couple celebrated their 51st anniversary last month. In this case, at least, a couple that works together stays together.

Where Dover titles are not in the public domain, Cirker pays authors a modest flat fee for their books rather than royalties based on sales. Contrary to standard publishing industry practices, Dover always sells its books on a nonreturnable basis. While publishers often take back as many as 40% of the books they ship, at Dover all sales are final. This, too, helps keep costs down, savings which are passed on to the public.

Debt service? The publishing industry's recent years of consolidation have larded most balance sheets heavily with debt. But Cirker, who grew up during the Depression on New York's Lower East Side, professes a "psychopathic" distaste for borrowing. Dover is debt-free.

Then there's the mom-and-pop thing. "Mrs. Cirker and I," explains Dover's founder when asked why he doesn't raise prices, "are making more money than we could ever spend." The Cirkers don't have yuppie tastes, but if they did, they could afford to indulge them. Last year Dover had pretax margins of about 10% on revenues of around $25 million.

Cirker first set out not to be a publisher but a doctor. After graduating from New York's tuition-free City College with a degree in social science in 1936, he was unable to get into medical school. So he took a job as a shipping clerk at Crown Books—then a fledgling remainder house selling books that had been unloaded by their publishers for pennies on the dollar.

Five years later, in 1941, he left Crown and put up "a couple of hundred dollars" to start a mail-order business selling remaindered books out of a tiny, $20-a-month office on lower Fifth Avenue.

How was business? Here's a sample of a friendly, if slightly acerbic, exchange between the Cirkers:

Hayward: "We probably did better in those first few years, in terms of making a living, than we did when I got into publishing."

Blanche: "You've forgotten."

"I haven't forgotten."

"We lived on a *very* modest budget."

"I'm not saying we lived well. I'm just saying that when I got into publishing I really had a hard time."

He certainly did. Cirker began publishing books in 1943. His first book, a German physics reference work called *Tables of Functions,* was published at the suggestion of a physicist friend from Bell Laboratories. *Tables of Functions* was and is a quintessential Dover book. While obscure, it had a built-in and continuing audience: students of high-level physics and mathematics. There was no royalty to be paid—copyright agreements with Germany were voided during the war. Nor did Cirker have to pay a typesetter. He merely photographed the original's pages (mostly numbers and graphs, with text in German and English) and reproduced them by photo offset. The original German edition, not available during the war, had cost around $20. Dover's edition sold for $5. *Tables of Functions,* still in print after 47 years, has gone on to sell some 60,000 copies.

Dover's first book
Still in print after 47 years.

Cirker's greatest publishing innovation came in 1951, when he began publishing books in paperback. In those days Dover was still mostly a mail-order hard-cover remainder business. (Mail order still accounts for 20% of revenues.) Reasoning that "packaging" books between expensive hard covers was hardly necessary for making the sale, Cirker figured he could cut book prices in half by going to paper covers.

At the time, paperbacks were almost exclusively rack-size books—mostly novels with lurid covers—selling for a quarter, and no one in the industry had yet dared try to sell serious books for $2 or $3 between paper covers. But Cirker knew he was onto something. "When you make a mailing of 50,000 pieces and you get a profitable return, that's better than any $100,000 survey or research." Doubleday and others in the industry quickly followed his lead.

In recent years, Dover has moved strongly into children's books, building a backlist of over 500 titles, most of which sell for under $4. The category is now Dover's largest revenue producer, thanks to constant pressure from the sales force for more books to sell. Examples: over 125 coloring books and reprints of classics such as *The Wonderful Wizard of Oz* and *The Merry Adventures of Robin Hood.*

The Cirkers manage to squeeze enormous amounts of work out of their small staff. Seven editors acquire, compile, commission and sometimes even write the 300 books a year the company brings out. A single graphic artist designs almost all of the book covers. Still, employees point out that Hayward has the final word on every decision the company makes.

Which makes one wonder about the future of this quirky and successful little company. Neither of the Cirkers' two children is involved in the business, and Hayward readily admits that no succession plans have been made. When asked if he still thinks he'll live forever—as he told an interviewer from *Publishers Weekly* nine years ago—Blanche quickly answers back, "Status quo, status quo." But Hayward demurs. "I suppose that's a question that's very philosophical," he says. "I just come in from week to week and day to day. I don't feel very different than I did when I was 50."

When pressed on the succession question, he says simply, "It'll be someone else's problem." But at least for now, he has no intention of selling out and retiring.

"You might say at this point in my life, and Mrs. Cirker's life, that the business is kind of an unwieldy hobby," he says. "Not having it isn't going to make us any happier." ■

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Marketing

Edited by Joshua Levine

To survive in a fast-changing world, the mass media are going to have to become much less mass; today's marketers want to target their messages.

The last gasp of mass media?

MARK STAHLMAN, 42, a securities analyst with Alex. Brown & Sons, is a prize catch for marketers. Along with his wife and two children, he lives in affluent Montclair, N.J., just outside New York City. With his high income, prestige address and growing family, he's in the market for lots of upscale goods and services. But Stahlman's not biting on the usual lures.

Instead of network television, Stahlman each night zips through 42 cable channels while thumbing through some of the 30 special interest magazines he subscribes to. Everything from the *Wine Spectator* to *Road & Track*. More often than not, Stahlman confesses, most end up half-read in a 4-foot pile. Because there's simply not enough time. Certainly not enough to allow much network televiewing.

Yet, while the most attractive part of its audience is drifting away, TV networks have been steadily raising their prices. In 1980 the average price for 30 seconds of prime time on the networks was $63,800. Thirty seconds of network prime time today goes for an average of $112,600. That's a 76% jump in prices.

Faced with the decline in network televiewing and with rising prices for TV time and advertising space, people with goods and services to sell are looking for more efficient ways to reach potential customers. Thus the TV networks and mass circulation magazines are finding they can no longer prosper merely by delivering tons of undifferentiated audiences to advertisers.

"The way mass media work now, advertisers simply 'buy eyeballs,'" as one ad agency media director puts it—hoping that Stahlman's will be among them. But in the future, advertisers will demand that the media pinpoint not only the age and income of their prospects but also their psychology and buying patterns. Often this won't be done program by program and page by page but in combinations of magazines, TV programs, books and videotapes. Knowing who it is he wants his message to reach, the marketer will demand a media package that promises to deliver his target audience—not just an audience. If Mark Stahlman is in a marketer's target group, he will look for advertising media that can deliver Mark Stahlman and not just any pair of eyes.

"That is clearly what is coming," says Rupert Murdoch, whose News Corp. is buying and building exactly these sorts of bundled media options on a global scale. Looking ahead to when homes will get 100 or more cable or satellite channels, Murdoch says there will be "a lot more fragmentation in the audience and a lot more targeted broadcasting."

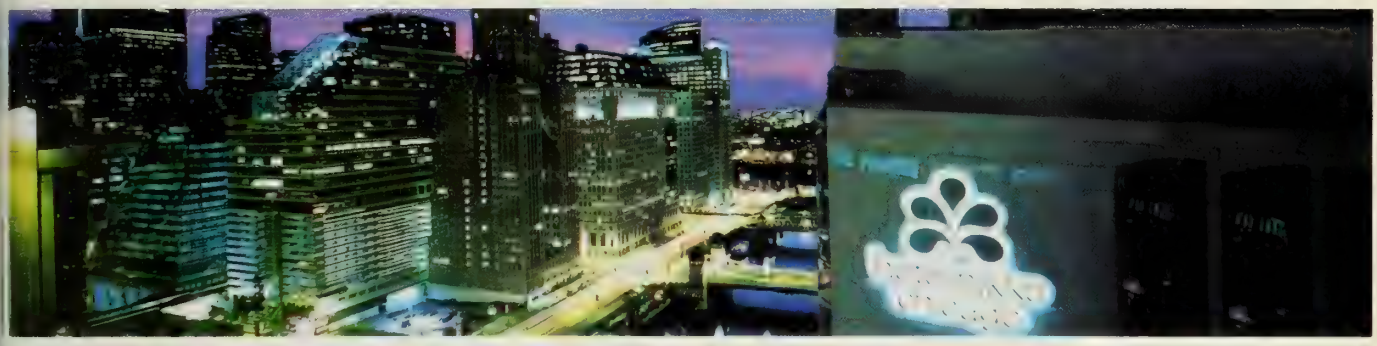
Within ten years, maybe sooner, those mass media that can't subdivide their audiences like this to include the Stahlmans of this world will be crippled—or worse.

Back in 1978 ABC, NBC and CBS had a lock on viewers, with 90% of the television audience during prime time. By last year that had dropped to 64%, with independents (including Murdoch's new Fox network) up to 24% and cable channels at 22%. Worse for the networks, the viewers they have lost are often people like Mark Stahlman.

By last year roughly half of U.S. households could choose from among more than 30 TV channels. With so many choices, the audience becomes, as Rupert Murdoch says, "fragmented." Each fragment offers different viewer profiles and correspondingly different marketing opportunities. Only three years ago less than a third had so many options. Viewing choices will only multiply in the decade ahead, according to a report issued by New York-based ad agency Ogilvy & Mather. That will further undermine

Illustrations by Laura Cornell

We're across from Atlanta's Financial Center, one block from Chicago's



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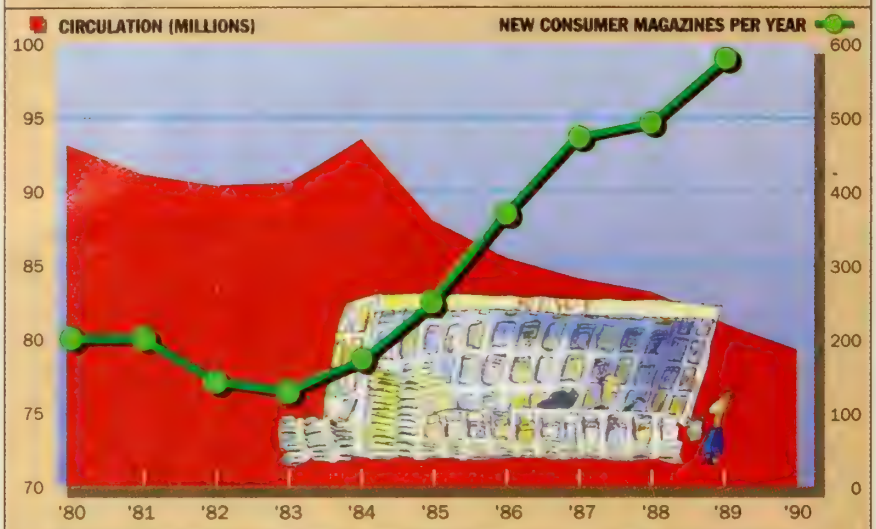
Look for the opening of the newly renovated New York Essex House, on Central Park South, in the Spring of 1991.

An avalanche of new magazines has buried readers

The circulation of the ten largest general interest, mass circulation magazines has dropped, as readers have gravitated toward special interest publications. There were almost 3,000 new publications in the last decade.



Note: New magazine data are estimated for years 1980 through 1983. Source: MPA; Dr. Samir Husni

network viewing.

The networks argue they've hit bottom. Not everyone agrees. "There's really no mass media left," says Eugene DeWitt, who runs his own media buying company. "The Emperor's got no clothes."

Mass-circulation magazines face the same dilemma the TV networks face. They offer a somewhat undifferentiated audience, and that isn't what marketing people generally want.

Faced with an avalanche of new competition from specialized interest publications—nearly 3,000 new titles hit the newsstands in the last ten years—the general interest, mass-circulation magazine industry is currently suffering through a gruesome downturn. All this has disturbing echoes of the demise in the 1950s and 1960s of such powerhouse national magazines as *Collier's, Look* and the *Saturday Evening Post*.

Reader's Digest, the most widely read general interest magazine, is down to 16.3 million readers from a high of 18.4 million in 1977. Over the same period, *TV Guide*'s circulation has dropped by more than 4 million—which is more than the combined circulations of *Travel & Leisure, Working Woman* and *House Beautiful.* "You probably won't see *Time* magazine grow," concedes Reginald Brack, president of the Time Inc. Magazine Co., a division of Time Warner. He's being optimistic. Actually, *Time* is shrinking. *Time,* the largest-circulation newsweekly, is down to 4 million readers from its peak of 4.8 million in 1986. Twice in the last two years it reduced the circulation it guarantees to advertisers, because it was becoming increasingly costly to maintain the old levels and because advertisers were less and less interested in sheer numbers.

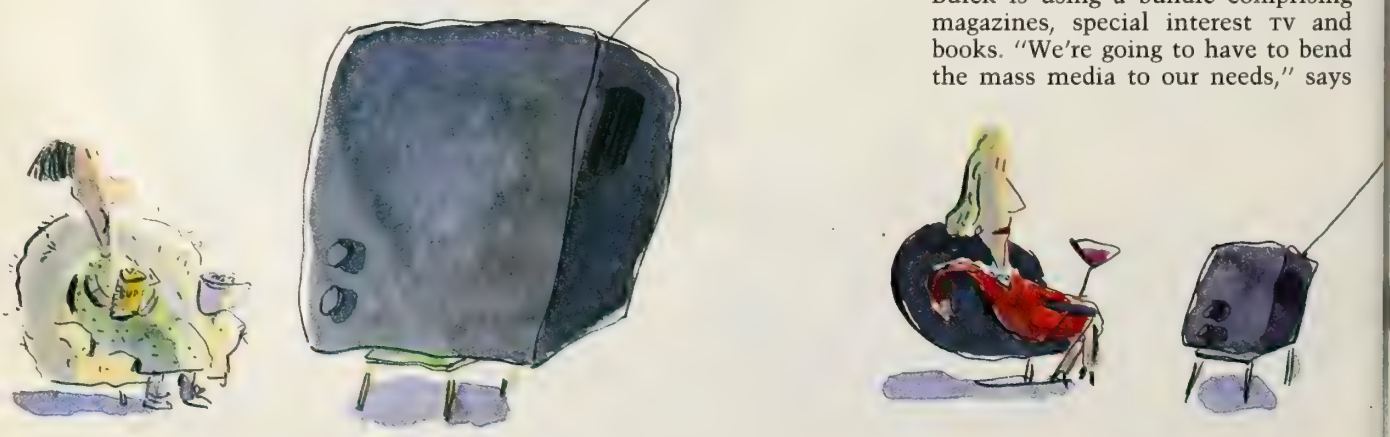
Most disturbing to advertisers, the defectors from the mass media tend to be richer, better-educated people who can afford specialized material that fits their needs more snugly. Which leaves mass television and magazine audiences increasingly made up of a "media underclass" that will only become more impoverished over time.

Take women aged 25 to 54, a basic audience sector in TV advertising. On average, the poorest 40% of the audience sees 77% of the prime-time commercials, while the richest 40% sees only 8%. Instead of watching a network show, the more affluent women are probably spending their time reading *Architectural Digest,* the *National Review, Town & Country* or the *New Republic.* Or, if televiewing, they may be watching Bravo or the Arts & Entertainment Network.

"The networks are straining to maintain the institution, but the institution is dying like a tree—from the inside out," says David Braun, who runs the media services department for the merged Kraft General Foods. "Suddenly you notice there's no wood in the middle."

Some advertisers have already noticed, and are acting on it. Starting on Labor Day, for example, Buick began sponsoring a series of six syndicated television shows devoted to winners of the Medal of Honor. The programming is designed in response to the profile of Buick buyers, who are conservative, mature, decidedly not flashy and earn at least $35,000 a year.

The problem is, these people don't watch much television. So Buick and *U.S. News & World Report* devised a series of six special sections on these medal winners to run in the magazine the weeks the broadcasts air. Afterwards, the inserts will be bound in book form and sold in bookstores and newsstands. Buick, aware that its target audience does not watch much television, hopes the inserts are getting readers to watch the TV series. This is the kind of thing Rupert Murdoch is talking about when he says the future lies in bundled media: Here Buick is using a bundle comprising magazines, special interest TV and books. "We're going to have to bend the mass media to our needs," says



Chrysler Ranked Highest in Customer Satisfaction Among American Car Manufactur

DETROIT–A survey just released by J.D. Power and Associates, an independent research firm, shows that Chrysler has the highest customer satisfaction of any American car com

known in the auto industry as CSI, or Customer Satisfaction Index, reflects owners' experiences with both car and dealer in the fir months of

total mix clear su Chry Fo

1987

Chrysler Again Ranked Higher Than Ford or GM in Customer Satisfaction.

(Continued from Page A1)

second consecutive year, Chrysler outranked both Ford and GM in customer satisfaction with overall product quality and dealer service. A spokesman for the company was quoted as saying, "Frankly, we're not surprised at the outcome. When C man Lee I 1983 th

what matters most to Ameri Some 23,000 owners of do cars reported on such cr cern as problems dr customer hand repair

1988

Chrysler Ranked Highest of Any Domestic Carmaker in Customer Satisfaction Again.

By LELAND ROSEMOND

For the third year in a row, Chrysler nudged out Ford and GM as the American carmaker with the highest levels of customer satisfaction. In a su public today by J.D. Power a one of the auto in independent

dealer's ability to fix problems on the first visit and number of repair proble encountere to carm

1989

Again, Chrysler Ranked Highest in Customer Satisfaction of All American Car Manufacturers.

DETROIT–For an unprecedented fourth straight year, Chrysler outranked both Ford and General Motors in customer satisfaction, according to a study released today by the independe testing firm of J.D. Power and ates. The report is based on more than 25,000 o purchased new

study, called "1987-1990 CSI: customer satisfaction with overall product quality and dealer service for 1986-1989 passenger cars," clearly demonstrates Chry r's performance for the last four reveals where pr with a gen

1990

NOW THEN, WHICH NEW CAR DID YOU SAY YOU'RE CONSIDERING?

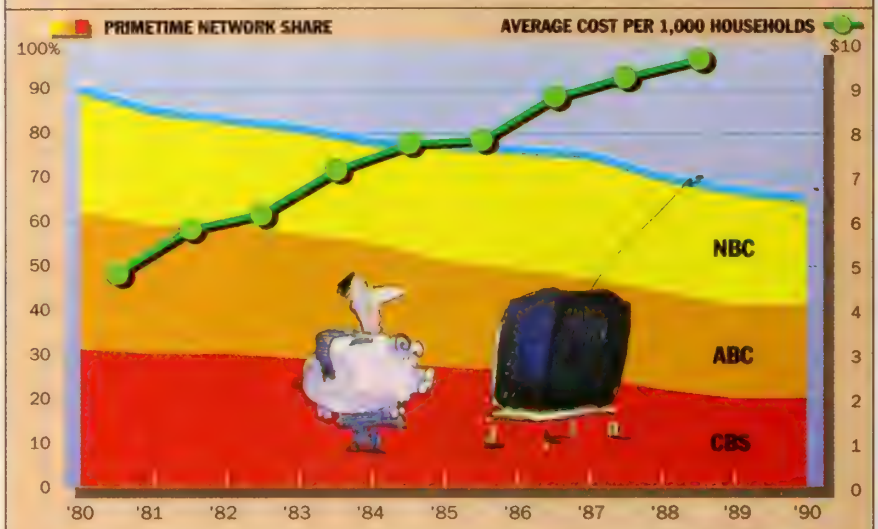
Advantage: Chrysler.

CHRYSLER · PLYMOUTH · DODGE · DODGE TRUCKS · JEEP® · EAGLE

J.D. Power and Associates 1987–1990 Customer Satisfaction with Product Quality and Dealer Service™ 1986–1989 passenger cars. Buckle up for safety.

Falling ratings, rising prices

As their share of TV viewing has dropped, the major networks have hiked prices drastically. Advertisers, forced to buy more commercials to reach the same number of viewers, have paid up—grudgingly.



Source: Nielsen Media Research

Phil Guarascio, who can do quite a bit of bending with the $1 billion ad budget he throws around as head of advertising at GM.

Kraft General Foods' David Braun agrees. Ten years ago Braun's job was relatively easy: To snare women aged 25 to 54, the basic target market for a product like Grape Nuts cereal, Braun used to call the three television networks, the seven big women's service magazines and *Reader's Digest*. Mission accomplished.

Today Braun considers about 100 magazines for Grape Nuts, and ends up placing ads in as many as 30, including *Backpacker*, *Prevention* and *Shape*. Braun still buys network television but supplements that with numerous cable channels and syndicated shows to reach his target audience.

Gordon Link, media director at McCann-Erickson Worldwide, the New York-based ad agency, says when the networks' share of viewers dips to 40%, their days as a mass medium will be over. When will that be? David Braun thinks it could happen within five years.

Not surprisingly, the networks say that will never happen. They've banded together to form the Network Television Association to mount the first-ever trade campaign to convince advertisers they're alive and well.

Mass magazines may have more flexibility than network television moving into an age of more specialized audiences. *Time* magazine is considered the leader among big publishers in slicing and dicing its circulation. Using a process called selective binding, Time recently began inserting specially targeted ads into 900,000 copies of *Time*, *Sports Illustrated* and *People* that go only to subscribers who have just moved. The ads, from makers of appliances, carpeting and other home improvement items, zero in on the likeliest prospects for these products.

Time says it's too early to say how this is working. But it's certainly not clear that a focus on demographics alone is going to placate advertisers. For many years now, *Time* has offered advertisers over 200 demographically and geographically targeted editions, ranging from business executives to college students. But more than 70% of *Time*'s advertising still runs in the full edition, roughly the same percentage as ten years ago. Meanwhile, the cost of fragmenting press runs balloons the cost of producing the magazine—higher costs that get passed on to the advertisers.

In future, selective binding and a companion process, inkjet printing, will let mass magazines treat their circulations much like direct-mail lists—at a fraction of the cost. This way an advertiser can, in theory at least, reach only those *Time* readers it considers worth reaching, not the full subscription list. Says Time Warner's Reginald Brack: "Dozens of advertisers are already running their own databases against our subscription list."

Chevrolet is matching a list of owners of competing makes with *Time*'s circulation. With inkjet printing, Chevy can address those readers by name in the ad, possibly steering them to their nearest Chevy dealer for a test drive. *Time* readers who don't own the make of car Chevy is targeting will never see the ad, which is supposed to run later this year.

Not surprisingly, that kind of customized service doesn't come cheap. A full bells-and-whistles *Time* magazine ad using both selective binding and inkjet printing costs about $45 per thousand readers, compared to *Time*'s $30 average. By contrast, a comparable direct-mail campaign averages about $400 per thousand.

The next step: *Time* and other magazines will turn selective binding loose on their editorial copy, tailoring the mix of articles to the taste of individual readers—the ultimate response to

In 1866, when the transatlantic cable linked two continents, Allendale had been in touch with its customers for 31 years.

The telegraph. For years engineers had dreamed of using it to bridge the communication gap between Europe and North America. But it wasn't until 1866 that the dream became reality. And when the *Great Eastern* sent the first message, Allendale had been listening and responding to clients for 31 years.

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specialized reader needs. Will it work? Skeptics say that people with specialized interests—which means all of us—are more likely to turn to a specialty magazine than to look to *Time* for what they want to know. Cat lovers will prefer cat magazines to articles about pets in *Time*; for fans of popular music, *Rolling Stone* will probably be more popular than an issue of *Time* with a few extra articles about pop music.

But TV broadcasters can't subdivide the airwaves the way magazines can cut and paste their pages. Publicly, at least, they say they don't have to. With deep-pocket budgets to spend on splashy programming, networks say a majority of viewers will always choose to watch them. But that may be wishful thinking. CBS figured it could pull in male viewers by shelling out $3.6 billion over four to seven years for the rights to a broad range of big-time sporting events like baseball's All-Star Game and auto racing's Daytona 500. So far, it's not working that way. Ratings for the Daytona 500 last February, for instance, dropped to 7.3, from 8.1 in 1989, and CBS is whispering to Wall Street that it's facing big losses this year.

The networks' programming advantage will keep shrinking as cable operators and syndicators boost their spending on original programming, most notably sports. ESPN now carries about 160 major league baseball games each season and 8 National Football League games. Ted Turner's TNT cable network has a big chunk of NBA basketball, with 75 regular-season games. News junkies—an educated and affluent lot, by and large—will probably turn first to CNN rather than wait for the evening network television news.

Rupert Murdoch's Fox network has also proved there are alternatives to mass programming. Fox has corralled huge numbers of viewers aged 12 to 34 with brash, irreverent shows like *In Living Color* and *The Simpsons* that speak directly to youth in their own voice. Targeted TV.

That approach has obviously appealed to advertisers. Fox raked in $550 million in advance advertising commitments for the new season, up from $300 million last year. CBS took in only $900 million, and it airs seven nights a week to Fox' five. Says McCann-Erickson's Link: "The networks argue that they couldn't have done what Fox did. I say bull!"

At least one of the networks is hedging its bets. Last February NBC joined forces with Murdoch's News Corp., Cablevision Systems and Hughes Communications to form Sky Cable, the first U.S. direct broadcast satellite (DBS) venture. Sky Cable will enter orbit and start beaming programming to the home via napkin-size satellite dishes in late 1993. It will also give niche TV programming a significant boost. Sky Cable will carry as many as 108 channels, many of which will resemble special interest magazines. "Programming of the future will have to be niche-oriented to succeed," says Marc Lustgarten, vice chairman of Cablevision Systems Corp. A channel carrying only westerns, or science fiction shows? Why not, says Lustgarten. But advertisers won't be buying piddling audiences of wrangler-lovers or sci-fi freaks. They'll buy demographic packages of viewers on a number of these niche channels.

Christopher Whittle, whose Whittle Communications is 50% owned by Time Warner, is gearing up to launch Special Reports TV this fall. This outfit will put video disc players in the waiting rooms of 20,000 pediatricians, obstetricians and family doctors. Whittle's pitch is simple: Here's a way to reach potential customers that your regular advertising somehow missed. Says Whittle: "Since there's less time to consume media today, we try to figure out places where people still have the time."

Future Whittle screens may appear in airports and even the workplace. More fragmentation of the mass markets, less money and time for the mass media.—J.L.

New high-tech threats to mass media

Falling ratings, alternative media and narrow-interest programming are eroding mass television's audience. Now comes some new, whiz-bang video technology to deliver another unneeded blow.

Interactive television is only in the early stages of testing and development now, but Louis Schultz of advertising agency Lintas: USA expects 40% of American homes to have interactive television by the year 2000. With it, viewers can use a variety of devices to deliver signals to their TV sets; for instance, ACTV Domestic Corp.'s four-button remote control will enable them to shift camera angles at sporting events, controlling how they watch the unfolding action. Or viewers of an aerobic exercise program could choose among various levels of skill and difficulty.

Marketers will love it, because they will be able to know precisely who viewed what programs and how many did rather than depending on projections based on imprecise monitoring.

Le Groupe Vidéotron recently tested some of ACTV's equipment in a primitive version of interactive television at a Montreal Expos baseball game. And while it was trying to determine whether people want to pay for this newfangled stuff (47% of those prospective customers polled said they would), General Motors was beaming commercials for different car models to different viewers.

This isn't today's technology, perhaps, but it's not very far off. And beyond it lies fiber-optic cable, the electronic superhighway to the nation's homes. "When fiber optics arrives, it will completely destroy the very idea of mass media," says James Ogilvy, president of research firm Holen North America. As head of the Stanford Research Institute, Ogilvy helped create the VALS system of psychographic segmentation. With fiber optics comes video on demand, stored and called up whenever the viewer wants it. Laying thousands of miles of fiber-optic cable to replace current twisted-wire phone lines will cost in the neighborhood of $250 billion and won't be accomplished until early in the 21st century. But it will be yet another thorn in the side of the mass media.—J.L.

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The Christian Science Monitor, not quite 100 years old, and the church's other media assets are in deep financial trouble.

Netty Douglass' impossible task

By Norm Alster

In June Netty (from Annetta) Douglass was named manager and chief executive officer of the Christian Science Publishing Society, the media operations of the Boston-based Christian Science Church. Douglass, 42 and a 22-year veteran of the church's media arm, puts in 18-hour days. She is known for getting things done fast, and that's a good thing. In her new job, she has to work fast. The church's ability to fund its mounting losses on the *Christian Science Monitor* and its other media projects is running out.

Reflecting new investments in television, magazine and radio ventures, the church's combined losses in media operations ran to about $57 million last year, on revenues of just $30 million. This year, too, losses will exceed $50 million. The church receives substantial contributions every year, yet its working fund, used to subsidize the media operations, has fallen from nearly $230 million in 1987 to just $145 million this year. About half of this sum is restricted to specific purposes, leaving $70 million or so to help support the staggering media losses.

One group of disaffected church members has been soliciting funds from members to mount a challenge to the church's current management. In a reference to well-publicized prosecutions of parents whose young children have died after their parents eschewed medical treatment for Christian Science spiritual treatment, Stephen Gottschalk, author of a history of Christian Science, says: "Many members feel that the enormous emphasis on broadcasting is secularizing the church from within just when spiritual healing is under unprecedented challenge from without."

Netty Douglass, in short, has her work cut out.

The church's media involvement dates to 1908, when Mary Baker Eddy (who founded the church in 1879)

Susan Lapides

Christian Science Publishing's Netty Douglass
Racing against time with leg irons on.

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The church's television master control room
High integrity, heavy losses.

conceived of the *Christian Science Monitor* as an alternative to the yellow journalism of the time. Over the years, the *Monitor* won respect not for proselytizing but for its sober and thoughtful international coverage. Among its influential correspondents were Erwin Canhan, Harry Ellis and Richard Strout.

Even today the *Christian Science Monitor* connotes authority and intellectual integrity. Financially, however, the paper peaked in the 1950s. Competition from television as well as the high costs of printing and delivering a national newspaper and maintaining an extensive international news staff hammered the bottom line. Not since 1961 has the *Monitor* actually turned a profit. Since then, the venerable daily has lost a total of nearly $250 million; the figure would be far higher were inflation factored in.

In late 1988 the church's elders decided to recoup some of these losses by cutting back at the paper and accelerating the church's commitment to other media. This meant wringing more money out of the *Monitor*'s established name and reputation by pouring more money into new media ventures. *Monitor* Editor Katherine Fanning resigned, along with several top deputies.

The *Monitor* has invested in color production while sharply cutting back staff and pages and hiking subscription rates. A significant chunk of the readership has voted against the tradeoffs: Circulation is down from 165,000 in January 1989 to just over 115,000. The paper runs just two full-page ads a day.

For the church's fiscal year ending last April, the *Monitor*'s losses dropped to just $11 million. But that drop masks the fact the *Monitor*'s shortfall is now just a small fraction of the total media deficit: The line extensions into electronic media have required huge investments, with scant financial payback.

Netty Douglass is credited with rapidly and efficiently putting together the shortwave radio network. The broadcasts reach 7 million listeners around the world, but, as the candid Douglass allows, "there are no commercial revenue-producing possibilities." Church members have already been asked, twice, to cover the radio service's $38 million capital costs with contributions.

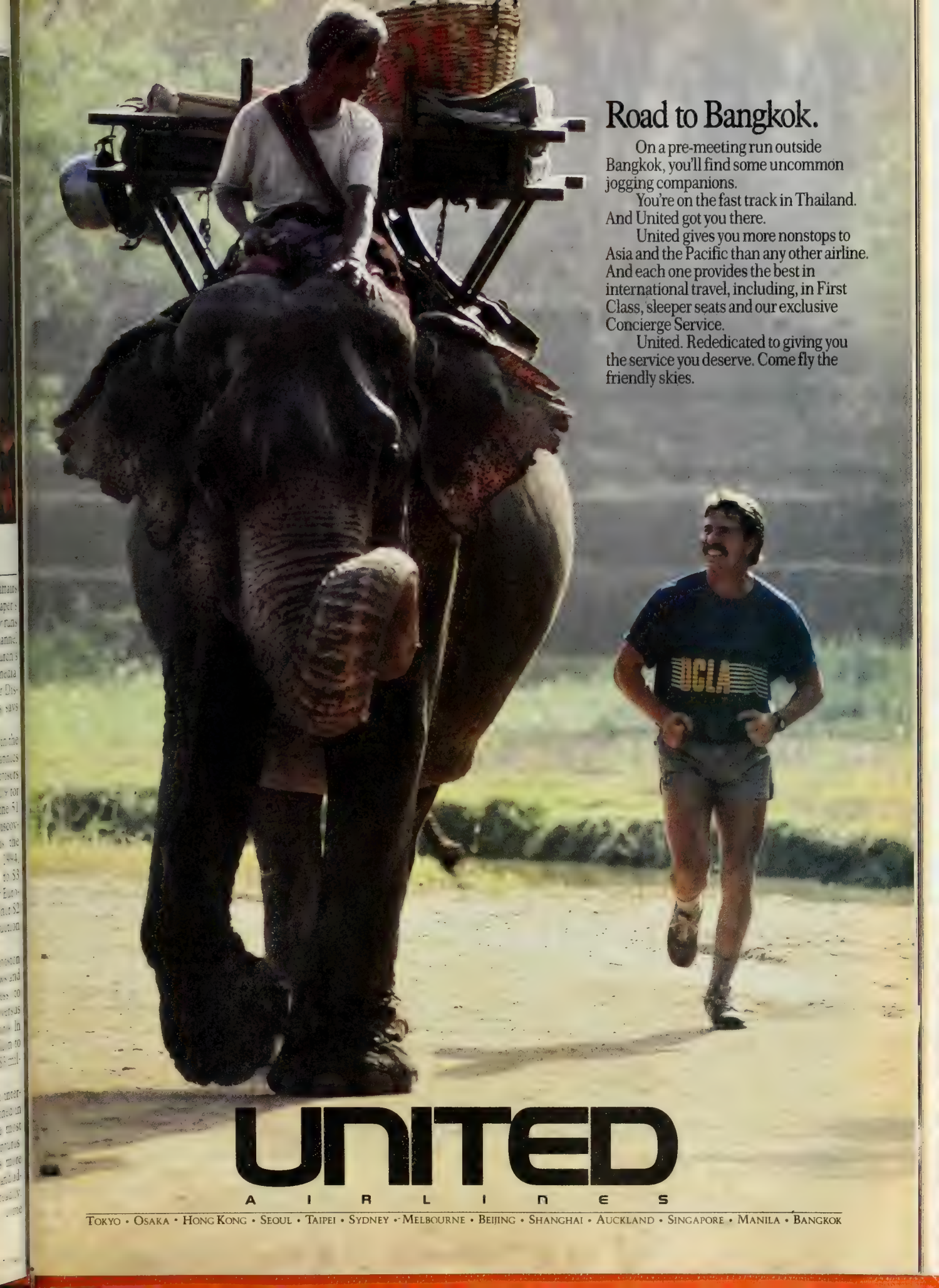
Television programming operations lost $20 million. And a Boston UHF station owned by the church (WQTV) lost $10 million more. A five-year plan for TV calls for steadily growing revenues, but even the target for 1994 is less than break-even. This year programming operations will cost $30 million but will produce less than $10 million in revenues.

Douglass' most successful broadcast programming is the church's *World Monitor* show. A half-hour international news and current affairs show that taps into the newspaper's international staff, *World Monitor* runs twice a day on the Discovery Channel and is the centerpiece of the church's diversification into electronic media. Its ratings are about average for Discovery shows in its time periods, says Discovery President Ruth Otte.

Otte expresses satisfaction with the show, whose upscale demographics have proved attractive to advertisers beyond its rating (a combined 0.9 for the two showings, or 0.9% of the 51 million viewers who receive Discovery). Discovery Channel owns the U.S. rights to the show through 1994; the church will get $2 million to $3 million this year. A contract for European distribution produces another $2 million. *World Monitor* production costs are $20 million a year.

The church's other television shows—30 hours a week of news and feature programming—cost less to produce, just $5,000 an hour versus $150,000 an hour for *World Monitor*. In all they cost less than $10 million to produce, but bring in less than $3 million in revenue.

World Monitor Magazine, the international affairs monthly launched in October 1988, is perhaps the most promising of Douglass' new ventures. The magazine already claims more than 250,000 paid subscribers, and advertising revenues are rising steadily. But the circulation has not come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cheap. This year alone, the magazine will send out 18 million pieces of direct mail. Losses at the magazine totaled $5.5 million, but management hopes for break-even in 18 months.

Undaunted, the Christian Science Publishing Society continues to expand. It plans a satellite-based cable programming network for next May. Purchase of a transponder and construction of an earth station alone will cost up to $14 million.

In effect, Douglass has little choice but to expand. She is in a race against time. She must develop the new businesses—especially television—fast enough to keep the working fund from shrinking to a point that would trigger wide revolt.

Unfortunately, Douglass is running this race in leg irons. The entire publishing and broadcast industry is in the doldrums these days—why should the Christian Scientists buck the ebbing tide? Making matters worse, commercially, church officials emphasize that neither proselytizing nor profit is their primary aim. Their media activities, they say, fulfill Mrs. Eddy's public service mandate to "injure no man, but to bless all mankind." Let others worry about commercial viability. The church's media operations will provide a sane and decent alternative to network programming, broadcasting reliable information to people around the globe.

At a recent meeting, a TV staffer for *Today's Monitor* asked earnestly how one show could be improved. "If we were like everyone else in commercial TV," an executive responded, "we'd be running focus groups. We will never run focus groups, because it's corrosive." And unlike other big churches with media assets, the Christian Scientists decline to use their airwaves to proselytize, and thereby forgo contributions from the truest believers.

This high-minded attitude may make for higher-quality journalism, but it does little to boost ratings and revenues. And it all but guarantees that some of the church's programming will continue to be flat-out boring. Example: The nightly *Today's Monitor* show highlights stories from the next day's *Monitor*. This is a sensible idea that makes synergistic use of *Monitor* reporters. But the show has virtually no video content—a baffling omission on television. While a reporter discusses his story by telephone from Addis Ababa or Rangoon, the screen idles on a still photo of the correspondent and his byline.

Another problem: Programming is relentlessly international in content and viewpoint. But the audience is American and has a limited appetite for foreign news. Without some marketing concessions to broaden appeal, break-even will remain an elusive objective.

Church leaders profess to be above these realities. As Harvey Wood, chairman of the church board of directors *(see box)*, puts it, the church's media goal is "to set a higher standard for journalism."

Asked if the church can really afford shortwave operations that have no revenue prospects, Wood replies: "Sure. We keep getting more wonderful letters from listeners around the globe."

In other words, the day is fast approaching when Netty Douglass will find that she can no longer run over or around the central unanswered question: How long can a nonprofit institution with a public service philosophy afford to ignore the unforgiving laws of the marketplace? ■

Following Gideon

As a practicing Christian Science healer for over 40 years, Harvey Wood has seen worse trouble than the church's mounting media losses. Wood is chairman of the church's board of directors. "I'm not worried," beams the infectiously jovial Wood, a sunny Texan who's been a healer ever since his World War II naval duty. "I'm not beleaguered. I'm so excited about where we are I can't stand it."

Wood is clearly a man who can apply faith to transcend both pain and logic. And he's not intimidated by numbers. Asked about the church's losses, dwindling assets and declining membership, Wood allows that "dollars and numbers mean everything." With a playful flourish, he adds: "But they don't to us. We sure don't measure our strength that way."

Rather than dwell on the fact that church membership has declined, Wood notes that the number of healings reported to the church's religious periodicals is rising—"a far greater measure of strength." Asked about a working fund that has shrunk under the weight of media losses and investments, Wood replies that the church has spent big before, and points at the lavish 13.5-acre Mother Church grounds in Boston's Back Bay—replete with a 200-yard-long reflecting pool built as part of an $84 million expansion in the early Seventies.

Now Wood goes on the offensive. "You ought to think through the Gideon story [Judges 7:17]," he says. "He's faced with an enemy army with large numbers, and he pared *down* his army instead of trying to add numbers. . . . To measure our strength in terms of numbers I think would be gross folly."

What if TV operations keep losing $30 million a year? "Then you stop it," he says. Not even numbers can be ignored forever.—**N.A.**

Susan Lapides

Christian Science board chairman Harvey Wood
"I'm not worried. I'm not beleaguered."

At Boeing, squeezing the last nickel out of suppliers is out. These days creating strong, long-term relationships is in.

No more weekend stands

By Marc Beauchamp

"We're interested in marriages," says James Blue, "not weekend romances." Blue, bearded and 61, isn't talking about the singles market. But he is a broker of sorts. As general manager of the Boeing Commercial Airplane Group's Materiel Division, Blue will sign off on more than $6 billion in new contracts with at least 3,500 suppliers to Boeing this year alone.

Most important, he is at the forefront of forging Japanese-style relationships between Boeing and its suppliers. He does this by working with the suppliers early in the design stages, and by awarding them long-term contracts that they can take to their bankers. His twofold goal: locking in favorable prices; and getting a better handle on quality control.

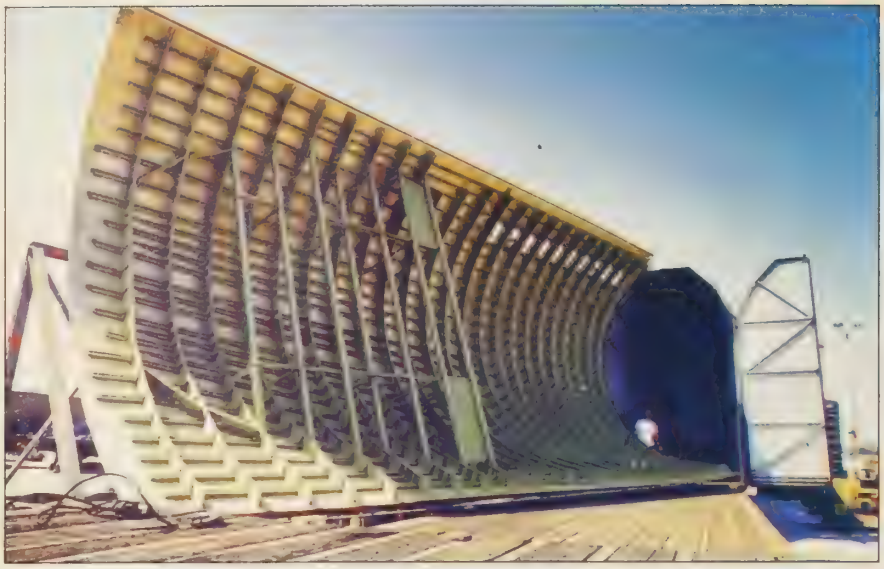
"In the past," recalls Blue in his spacious office, "you negotiated the bejesus out of your suppliers. Today what we're interested in is quality, schedule and cost. The low-cost producer may not get the contract."

Consider the case of Fullerton, Calif.-based Weber Aircraft, Inc. Weber is a $155 million (sales) passenger seat and galley maker. With big Boeing orders from carriers like American, United, Delta and Singapore, Weber was able to finance the addition of 300 people, a 20% increase in its payroll, and the investment of $7 million in refurbishing assembly lines in Texas and California. Weber is making around 15,000 seats a month, up 20% from two years ago.

Prior to 1984, Boeing's purchasing was done by each individual airliner program. The people in charge of building 747s, for example, would take care of their procurement needs. Likewise with the 757 team, the 737 team and so on. But as the Commercial Airplane Group began growing rapidly (last year it accounted for 71% of Boeing's $20 billion in operating revenues), it became obvious that procurement needed to be brought under centralized control. The 400-passenger 747-400, for example, contains some 6 million parts, which come from more than 1,500 suppliers. The Materiel Division was created to intelligently source and keep track of all

Rich Frishman

James Blue, general manager of Boeing Commercial Airplane Group's Materiel Division
"In the past you negotiated the bejesus out of your suppliers."



Fuselage made by Northrop in Los Angeles
For most planes Boeing makes only the wings.

these components.

The change made sense and was, by the company's own admission, long overdue. After all, some 40% of an airplane's cost is controlled by this division. Recalls Blue: "We realized that this [procurement control] is where the leverage is." So for the first time, for example, Boeing's buyers could combine similar parts orders for various jet models and get more competitive prices than if they had bought the items separately.

Blue took over the Materiel Division in early 1987 and began pushing the idea of longer-term contracts, and involving the suppliers as early as possible in the actual design and engineering of parts changes—and, most important, in the specifications for its new planes. The program affects virtually all of Boeing's suppliers, from hefty Northrop, which makes 747 fuselages in Los Angeles and ships them by train to Boeing's sprawling plant at Everett, Wash., to Seattle-based Eldec, which makes fuel flow measurement systems. (About the only parts Boeing itself makes across all model lines are wings.)

Rich Frishman

747-400 assembly line in Everett, Wash.
Some 6 million parts from 1,500 suppliers.

Working closely with suppliers has been particularly crucial in holding projected costs down on the new Boeing 767-X. Last-minute changes and special orders from customers—meaning the airlines—can sharply increase the cost of producing a plane. To minimize these last-minute change orders on the 767-X, Boeing has 18 major suppliers consulting with its engineers and designers on the new jet. Blue reckons this will eliminate 60% of changes.

In the past, building planes was like building houses: There were commonly 600 or more requests from customers for changes from the basic specifications. From now on, however, Boeing customers will have less of a free hand in designing their planes. Philip Condit, general manager of Boeing's New Airplane Division, came up with the idea of a catalog that the customer can use to pick options that it wants. That way both the customer and Boeing can keep track of their cost. With the catalog, the number of change requests on the 747-400 (such as the types of lavatories and the location of galleys) has been reduced to 50 or less.

Boeing has also found that more secure contracts increase its own efficiency by smoothing out shipping and supply glitches. Eighteen months ago, when Boeing foresaw a critical shortage of galleys, seats and lavatories developing, for example, it dispatched teams to such suppliers as Germany's Buderus Sell (galleys) and Japan's Jamco (lavatories) to get them to increase capacity. In a year, the suppliers of these key components boosted production and capacity by nearly 50%. Boeing has about 125 experts around the world whose job is to keep their eyes on suppliers and offer help when needed. Early in 1989 Boeing was battling 1,000 parts shortages on the 747-400; today the company has shaved that to about 30.

Is Jim Blue worrying about his suppliers because business is bad? No, he's worrying about them because business is so good. Boeing's current backlog is a record $90 billion. Unless the bottom suddenly falls out of the airplane business, by 1992 Boeing's commercial airplane division will be manufacturing up to 41 planes a month, instead of the 34 a month today. The better the grip Boeing gets on its procurement, the more profitable the years ahead will be. Says Blue, who started with Boeing in 1945 when he was 16, and has seen his share of airplane cycles: "When things look good, that's the time you have to work harder." ■

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Apple Computer's strategy: Aim for the high end of the market with product the competition can't copy and the customers can't do without. It's a road to high profits—and to extraordinary risks.

Can Apple go it alone?

By Gretchen Morgenson

LAST MONTH JOHN SCULLEY, the 51-year-old chairman of Apple Computer, told Wall Street analysts that 1991 was going to be one of the company's busiest years ever. New hit products, including several low-priced Macintoshes, were going to tumble off the assembly lines, reestablishing Apple as a technology leader. Someday the company was going to hit $10 billion in sales, up from $5.5 billion in fiscal 1990.

Could all this work out as Sculley intends? It could, and if it did, Apple's stock today is too cheap at a recent 37½, or nine times earnings. But there are a couple of soft spots in Apple's plans:

1. In developing and selling unique products, the company creates a high degree of incompatibility between its machines and the rest of the world's computers. It runs the risk of isolating its products.

2. By holding prices high, Apple makes it irresistible for profit-hungry competitors to work overtime to copy its features and undercut its prices.

Under Sculley, Apple has catered to people who buy very expensive personal computers, costing two and three times what other, less well known brands cost. Those customers buy because Apple has offered powerful and unique features not available elsewhere. You can't do this unless you have a proprietary design for the computer's electronic innards that competitors can't easily copy. This makes Apple machines incompatible with IBM machines and IBM clones.

The trouble here: Those IBM-compatibles account for an overpowering 90% of the personal computer business. The proprietary design protects Apple's rich prices from undercutting by clone makers. But it leaves Apple users somewhat isolated. Without special conversions and interfaces, they can't transfer work from Apple machines to non-Apple machines. Worse, they sometimes wait a long time before enjoying new software: Software written for IBM-type machines can work on an Apple only with the help of a software or hardware adaptor. Naturally, software writers would rather write for 90% of the market first and deal with the Apple tag end only later. Even Lotus Development's enormously popular 1-2-3 spreadsheet, for example, is not yet available in a Macintosh version.

So far, the compatibility dilemma that confronts Apple customers has yet to cause any distress to Apple's bottom line. Indeed, since joining Apple in 1983, Sculley has multiplied profits sixfold, to an estimated $500 million for the fiscal year that ends this month. But the incompatibility dilemma won't go away, given the increasing importance customers attach to interchangeability of machines and portability of their software.

So the question is: Will the strategy that served Apple so well in the late 1980s continue to work in the 1990s?

Apple's recent success has come from attracting such customers as publishing firms and graphics designers that spend, say, $10,000 to $50,000 for a computer and related gear. Meanwhile, the company has all but ignored the rapidly growing market for relatively inexpensive home computers, the very market in which it first made its enviable reputation. In the past two years the average selling price of Apple's products has jumped more than 60%, from $2,900 to $4,700. In the higher-end business market an Apple setup starts at $10,000; IBM or Compaq machines with comparable capabilities go for $8,000, and those from Hyundai, Daewoo, AST or Everex fetch as little as $2,000. How can Apple charge such prices and still survive? Dendy Young, president of Landover, Md.-based Falcon Microsystems, is the largest Apple-only reseller in the nation and one of the U.S. government's major sources for Apple gear. He says: "We feel that Apple gives you so much more productivity that, compared to the cost of people, it's really very inexpensive." Still, he concedes, it's a hard sell to get customers to write such large checks when much smaller checks would get them rival products.

No surprise, then, that Apple's share of the U.S. personal computer market, measured in units sold, has fallen by a third in the last five years *(see chart, p. 198)*. Why then is Apple so profitable, increasing its earnings in

Michael Garland

1990 by 26%? Because its dollar share of the market has held up better, climbing from 10.5% to 13.4% on the strength of its price increases. Chairman Sculley wrote in his 1987 autobiography, *Odyssey*: "It was important to establish a brand name that could command a premium price. . . . It was critical to have high gross margins to pay for the huge research and development expenses needed to support a proprietary technology."

Can Apple continue to survive as a high-end player? In automobiles, BMW does, even though its revenues are only 11% those of General Motors. But the analogy may not hold. Apple's operations are expensive. In fiscal 1989 Apple spent $2 billion on selling and administrative costs, research and development and other overhead. A graphic arts niche just won't pay those bills.

Apple can cover these high overhead costs because premium-priced Macintosh models give Apple the PC industry's highest gross profit margin (what's left of a sales dollar after manufacturing costs are deducted): 54%, compared with IBM's and Compaq's estimated 45% profit margins.

But such fat margins attract competitors. They haven't yet matched Mac's features, but they are getting closer. IBM clones can be bought with a lot of memory and with graphics boards and monitors that make them graphically powerful. And then there is the recently introduced Windows 3.0 from Microsoft, which makes IBM compatibles almost as easy to use as Apple machines.

Almost but not quite. Can "not quite" still support prices that are many times those of competitors'? Apple clearly thinks so, but then Apple has always been a company with self-confidence so extreme it borders on arrogance. This, after all, is a company that predicted in 1983 it would "blow IBM away," a company that tried to raise retail prices in late 1989 in spite of declining market share.

Skeptics who doubt the Apple strategy will continue to work cite the Xerox analogy. David Pearce, a former Xerox executive and now chief executive officer of Domain Technology, remembers: "We [Xerox] realized that all our profits were being made on high-end machines, so we put all our effort into building superduplicators. Meanwhile, the Japanese came in and completely overtook the low end." Xerox found out too late that the low-priced market was a conduit to customers who would later trade up.

Detroit long ago learned the same lesson: You need relatively low priced cars in your lineup to attract the first-time buyer; he's the one who later moves from Chevrolet to Cadillac.

IBM hasn't ignored this lesson. Since 1985, while Apple's share has stagnated, IBM's share of the home market has climbed from 10% to 15%. (Apple does have a very low end product, the Apple II, but its technology is 13 years old and the machine is not even compatible with the Macintoshes that make up the rest of Apple's product line.)

Sometime this fall Apple is expected to deliver two, maybe three, low-priced Macs to compete with new inexpensive machines from IBM and Tandy. There will probably be a $1,000 Mac with a black-and-white monitor and a $2,000 model in color. Apple boosters say that these new entries will reestablish Apple's lead in the home computer market, making up for some of the company's recent disappointments elsewhere, such as a too-heavy, too-expensive laptop. If these machines are successful, Apple will again have low-end machines to attract first-timers.

There remains the problem of Apple's isolationist technology. IBM took the opposite approach, opening up the workings of its machines so that rivals and third-party software developers could make compatible products. As a result, there are 40 million IBM-compatible machines out there, to 4 million Macs. And, more important, 90% of the software available to computer users is written for IBM-style machines, those whose operating system is DOS. Only 10% is written for Macs.

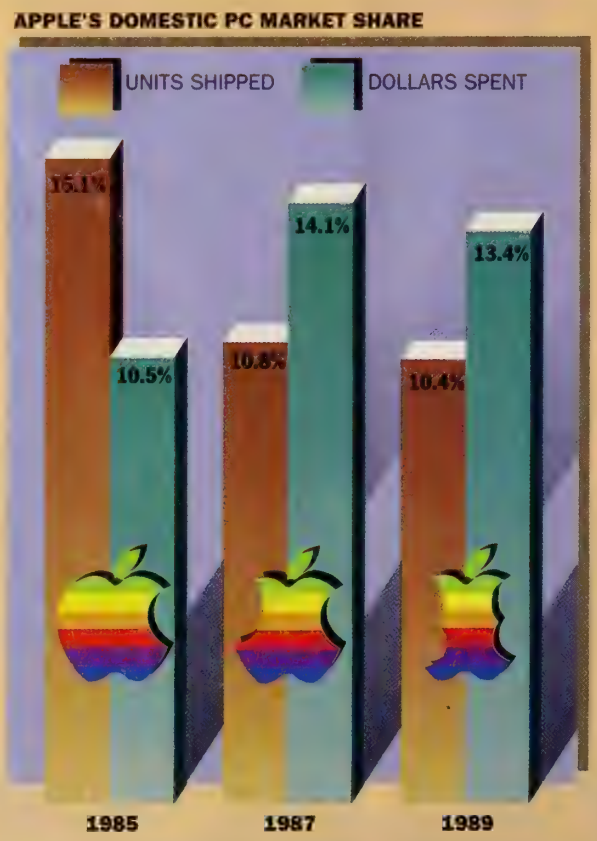
When the Macintosh was introduced in 1984, its technology was far superior to that of competitive machines. Unlike an IBM or IBM clone, a Mac required practically no instruction, just an electrical outlet and a desk. Apple could afford to be standoffish.

But superior technology does not always win out in the long run. Sony's Betamax videocassette recorder, though pioneering in 1975 and of higher resolution than the competing VHS standard, lost out to VHS. One of Sony's problems was that it, like Apple, had limited the licensing of Beta technology, whereas JVC, which created the VHS format, had shared its technology with many other companies. That helped expand the variety of programming for the machine. With so many more VHS recorders to choose from, and so many more VHS movies, consumers gave it the nod. In the end, software determined the hardware's fate.

What do computer customers want today? Listen

Room at the top?

Apple Computer's share of units shipped marches downward, but premium prices keep its dollar share of the personal computer pie up from 1985.



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to Rand Morimoto, president of California Computer Options, one of the largest computer dealers in California: "Open architecture is definitely what consumers want. With it you have the potential to just plug in a board and it will give you next year's technology without having to throw your old computer away."

Apple deflects the open-architecture question by noting that Macs equipped with the Apple SuperDrive floppy disk drive and Apple File Exchange can share files (such as word-processing documents) with DOS machines. Macs also run on Unix operating systems by way of some retrofitting. But there's a big difference between sharing files or shoehorning systems on top of one another and being plug-to-plug compatible.

If Apple intends to keep its technology proprietary forever, it is imperative that it keep two steps ahead of the IBM-compatible world with technological breakthroughs. For a long while, it did this. In desktop publishing, for example, the best equipment available has been Aldus PageMaker and Adobe PostScript software on a Mac IIci with circuitry to support a very high resolution color display. Although this combination is still state of the art, with Windows you can now use PageMaker on a DOS machine. And a new $900 IBM-compatible entry, Xerox' Ventura Publisher 3.0 software, is also giving Apple a run for its money in desktop publishing.

Can Apple afford to keep its architecture closed in an increasingly open world? Gordon Eubanks Jr., chief executive officer of Symantec Corp., a Cupertino, Calif. software company that sells a database language called Q&A, does not think so. Although a big Apple fan, he says: "You're better off sharing your technology to get your architecture to be dominant. Is this a business where long-term survival is going to be on high margins or on high market share? Apple should focus on market share at the expense of margins." Symantec's exciting and innovative Q&A software won't work on an Apple machine.

Yet Apple clings to its closed architecture, for reasons that are both economic and emotional. Economic: Were Apple to change over to the so-called DOS world, its profit margin would fall drastically, because it would then be competing, for the first time, with cheap Asian clones. Emotional: For Apple to open its architecture, maybe even add a DOS-compatible 386-chip to a Mac, would be major-league capitulation. The company still maintains that its products are superior to all others. It funds a $500 million R&D program, it supports four freewheeling creative types designated "Apple fellows" and works hard at maintaining its image as a font of innovation.

Sculley declined requests for an interview; he is keeping a low profile these days. But his positions are on the record. As a marketing man out of PepsiCo, one of Sculley's first tasks at Apple was to create advertising that defined his company as an industry innovator, as against IBM's role as the stable, customer-oriented manufacturer. Just as Pepsi was never to become a discount version of Coke, Apple was never to be the poor man's IBM. The Apple difference became the company's selling point.

Apple ad tweaked IBM's supposedly Orwellian bureaucracy
Is Apple catching the same disease?

That difference is no longer as clear as it once was. The early-summer introduction of Microsoft's Windows 3.0 software, with its Mac-like graphical user interface, singlehandedly took away a big chunk of Macintosh's ease-of-use edge.

Make no mistake: a DOS machine using Windows is not quite as friendly as a Mac. To get Windows running is not a trivial task, and Windows does not work well on relatively low grade machines—so-called 286s—that make up a large segment of PCs in use. Furthermore, there will always be customers—corporate or individual—whose needs and tastes require a Mac; publishers, graphic artists and designers are likely to remain loyal to the Apple machine regardless of Windows. Mark Brokering, an associate marketing director at Harper San Francisco, a division of HarperCollins Publishers, swears by the Mac. All of his firm's marketing materials are created on Macs because they are so productive. He says, "You get more speed and more control at less expense." But the fact that a $99 Windows software package can make an IBM clone do 80% of what a Mac does at a fraction of the price adds up to one big marketing challenge for John Sculley. Carol Muratore, an analyst at Morgan Stanley, sums it up: "There are people who believe that Windows 3.0 is as good as a Mac. It isn't, but the only way you'll know the difference is to use [a Mac], which is a problem when [Mac] has only 10% of the market."

Another Windows effect: Software writers from here on in will be that much less inclined to write programs for the Macintosh. The size of the DOS

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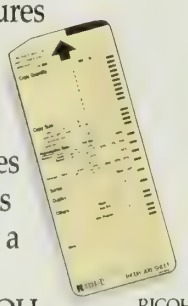

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Ed Kashi

Jean-Louis Gassée, Apple's former R&D chief
The man who kept the marketers and the techies from sparring departs this month.

Comp/Comm

market already attracts them; the friendliness of the Windows interface will attract their customers. This is vital for Apple's future. People buy hardware for the software it will run.

The market for new DOS software products looks enticing even to developers inside Apple—namely, at Claris, its software subsidiary. Apple was supposed to spin off Claris to shareholders as a public company earlier this year, but the plan was scuttled at the last moment. People close to the company say Apple chose to keep Claris under its control when it became clear that its writers planned to write programs for DOS machines the moment they were cut loose from Apple. Sculley learned this and reportedly nixed the spinoff.

New machines would help save the day for Apple, and Sculley wisely boosted R&D spending to 8% of revenue in 1989, from 7% in earlier years. But Apple's recent offerings have been extensions of existing products—a slightly faster box here, a better printer there. At 15 pounds, the laptop Mac introduced last year weighed twice as much as competing laptops did, yet Apple priced it twice and three times as high as the others. In what looks like an admission of design defeat, Apple's next laptop is rumored to be a joint effort with Toshiba.

Apple came out in March with a $9,000 to $11,000 Macintosh IIfx, much faster than prior Apple machines, thanks to a 68030 Motorola microprocessor and powerful support chips that drive the video display and handle memory access. But compared with workstations from companies that have been in that market for a long time, such as Sun, the Mac product is neither economical nor particularly powerful.

Apple's long-awaited operating system enhancement, System 7.0, is running a year and a half behind schedule. People familiar with System 7.0 say that yes, it's a little faster and more intuitive, but that it may not be compatible with all of the Mac software that's out there.

What about the next generation of innovations? In wireless networking, Agilis, a Mountain View, Calif. startup, is already building hardware that will allow companies to use radio waves to link their computers over short distances. Agilis' hardware will be available first for IBMs, not Apples. Multimedia computing—the mixing of sound, text and graphics in a single presentation—would seem to be a natural for graphics-oriented Macintoshes. But Microsoft, the premier software company, has joined IBM, not Apple, in development of multimedia systems. In pen-based computing, GO Corp. in Foster City, Calif. is in partnership with IBM, not Apple.

Can Apple nevertheless produce fresh technological breakthroughs that will continue to earn premium prices? Gone are the baby-faced engineers who made the place a university of innovation. While he was head of R&D, Jean-Louis Gassée excelled at balancing the marketing and technology factions within Apple. Gassée is leaving Apple this month. A former Apple executive explains the changes in these terms: Apple at its best was uncontrolled but superbly alive; now it is superbly controlled but a lot less alive. This executive is admittedly bitter, but there is no doubt the atmosphere has become more formal, more constrained.

It's not easy being a $5 billion company in an industry dominated by $10 billion and $50 billion giants. Under these conditions, John Sculley is doing the right thing: seeking to keep his products unique. The question is, Can he keep them unique enough to justify premium prices in a marketplace swarming with smart, hungry competitors? In a market that may value compatibility more than it does uniqueness? ■

OPEN SYSTEMS

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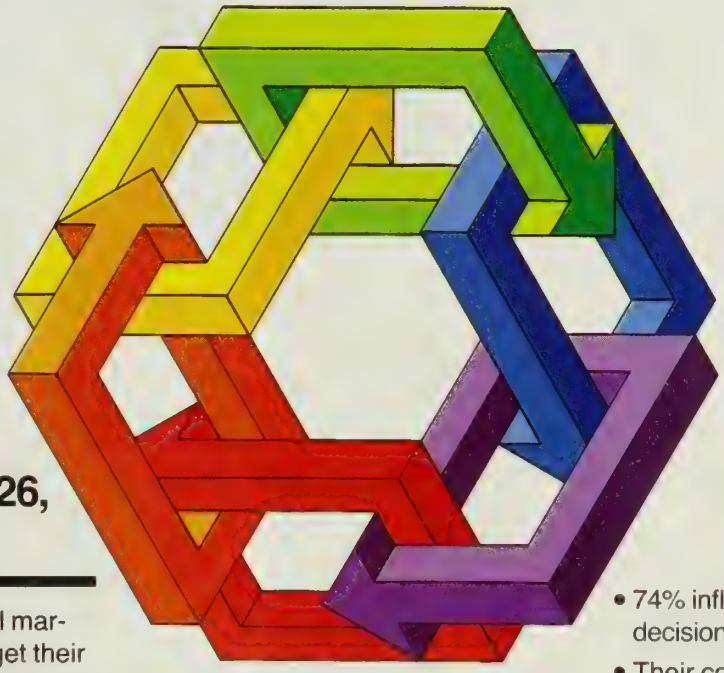
Issue Date:
November 26, 1990
Closing Date:
September 24, 1990



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Commentary by Esther Dyson

VIRTUAL REALITY: SPREADSHEETS FOR INDUSTRY

Virtual reality is getting a lot of press right now, but much of it focuses on the glitz rather than the substance. Briefly, it's the notion of combining three-dimensional simulations of reality with tools that can sense a user's movements—eyes, hands, body. Then software and a powerful real-time computer to run it compute the changes in the model to coordinate with the user's real movements. The effect is startling: You can sit and adjust your seat level inside a fictitious car, fly over complicated piping with leaks displayed in red, or perform repair work remotely while a robot does the real repairs in some dangerous or inaccessible location.

But this is yet another technology from which the users will probably profit more than its purveyors, which include Autodesk, privately owned VPL Research, and, indirectly, Digital Equipment Corp. and Silicon Graphics. Although VPL is profitable, it has achieved this by staying small and focused on customers such as designers, engineers and other people who work with models and simulations. Virtual reality is not a mass-market item that will trickle up but a high-level technology that will trickle down. It will take years before it becomes a mass-market phenomenon. And then? Perhaps we could have individuals using their virtually real computers to gain the illusion of shaking hands with distant acquaintances, or play very realistic war games, or learn surgery.

Although a lot of companies would like to lay claim to the entire concept, virtual reality is too broad an idea to be defined by a single company, product or approach. Behind it lies the realization that we don't experience reality directly anyway, we just receive light or soundwaves that our brains interpret as real. Thus if a computer can send signals to mimic those sent by real objects, the result will be virtu-

ally indistinguishable from the real thing. Computer engineers work meticulously to create mock-ups of actuality that send the right signals. These mock-ups are more than just images on a screen. They are three-dimensional moving pictures constantly adjusted as you "move" through a scene by turning your head or moving your hand or body.

There are a lot of practical applications. For example, you could move a simulated scalpel through a patient's simulated body. You could also manipulate a real, microscopic instrument by manipulating a large-scale simulation, or you could control a distant spacecraft or undersea robot while you're sitting safely on the ground. You can also design things—buildings, cars, hydraulic piping—without worrying about dimensions or the problems of poking around inside a nuclear power plant. Or you can fit protein molecules together to construct a drug.

VPL Research already has 500 customers, most of them in research but some in such areas as auto and aircraft design, medicine and even consumer marketing. This last is a simulated kitchen planned by Matsushita to market its appliances: Consumers can bring their own apartment layout to a virtual reality showroom, and select and position virtual appliances in their virtual kitchens before buying.

VPL's products include the EyePhone (a headset through which you "see" and "hear" virtual reality), DataGlove (which you wear so that the computer can pick up your gestures), and RB2 (Reality Built for 2, the software that generates the proper signals from the model). The gadgets and software cost about $50,000. The computer, usually from Silicon Graphics or DEC, could run another $100,000.

Where does the model come from? Usually it's a set of engineering descriptions. The computer power is necessary to transform the model into the proper light signals for any given simulated location and angle the user might assume. But building these models is tough, and until it's easier virtual reality can't take off.

Thus two changes are needed: Virtual reality needs to become cheaper and more convenient, obviously, but it also needs to hand over more power to the user. That is, skilled programmers can now create virtual reality for designers and other industrial users (or wealthy consumers) to work in and manipulate. But the real power of virtual reality will come when users can build their own systems. It's just like the difference between using a financial planning language before the days of spreadsheets (do you know anyone who did?) and using an end-user software tool such as 1-2-3. Once 1-2-3 made financial analysis planning software accessible to normal folks, the mass market followed—budget analysts, M.B.A.s, business-owners and the like.

Thus, most people are focusing on the wrong part of the virtual reality concept. It's not the ability to put the person into a 3D virtual world that's so important; in fact, in many cases you can get the same knowledge, albeit less vividly, looking at a two-dimensional screen. Rather, the real benefit is going to be the user's ability to create those worlds easily, using a set of "virtual programming language" tools that VPL Research is working on.

The excitement of this technology lies in the power it will ultimately give to users to design things—real or simulated—the same way spreadsheets let users build business models. But none of this guarantees that the pioneers in the business will make the most money out of it. ■

Esther Dyson is editor and publisher of the newsletter Release 1.0.

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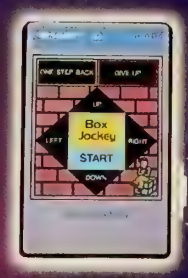

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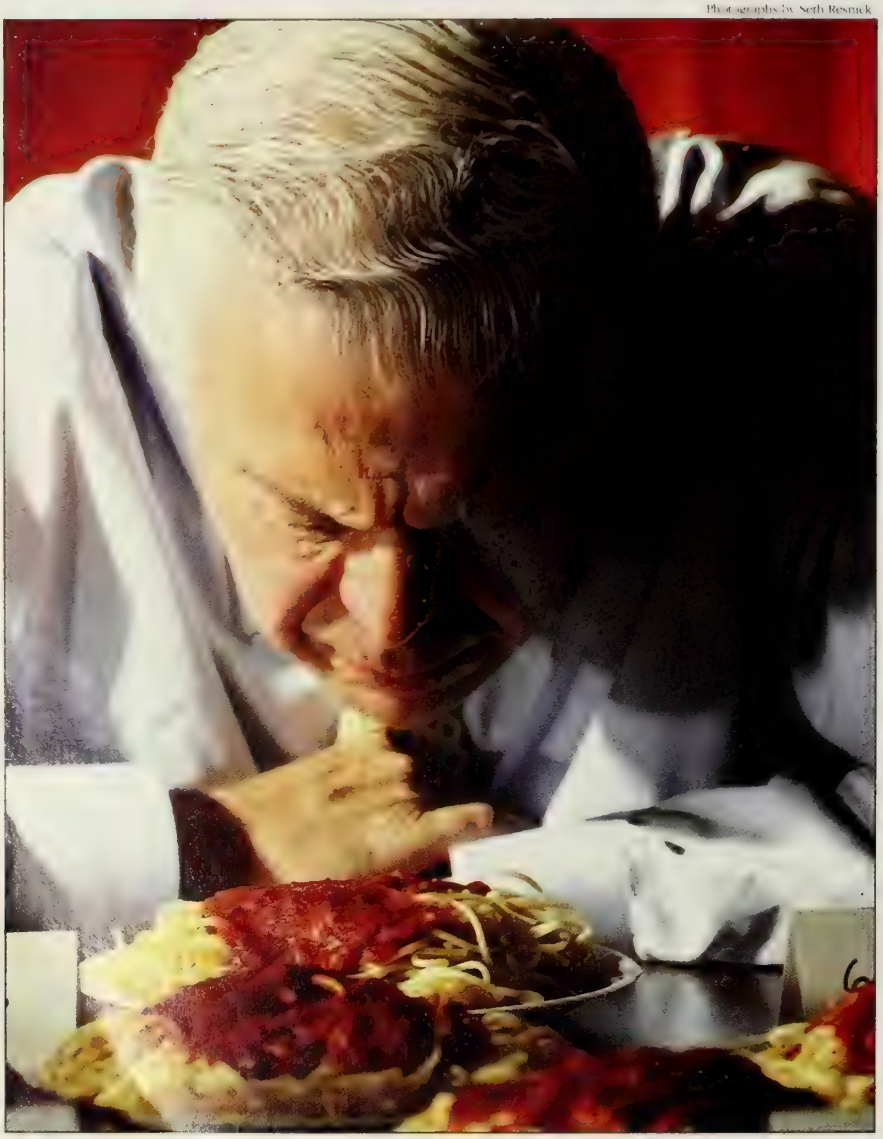
Science & Technology

Edited by Gary Slutsker

What makes your competition's secret sauce so zesty? What poisoned the wedding guests? What's the formula for whiter than white? Hint: You need a powerful sniffer.

Have nose, can travel

Photographs by Seth Resnick



Herb Shuster of Shuster Inc. on the job
Good times for olfactory Sherlock Holmeses.

By David Churbuck

THE SCENE was a supermarket manager's worst nightmare come true: A shopper in the produce section reaches into the refrigerated case to pick a head of lettuce and discovers to her horror an empty hypodermic needle. This actually happened last year at a grocery store near Boston. Within minutes, the store was cleared and the manager was on the phone to the authorities. What was in the needle? Heroin? Contaminated blood?

A fast answer was vital. With only a trace amount of the mystery substance in the barrel of the needle, the lab had one chance to guess right before the store would be forced to trash all its produce. The store called in some powerful sniffers—not the canine division, but a local testing laboratory that specializes in high-tech analysis of food and pharmaceutical products. The liquid was run through a chemical analyzer called a high-pressure liquid chromatograph and turned out to be insulin.

The testing lab that did the detective work is Shuster Inc. of Quincy, Mass., a small business but one of the larger consumer products testers around. These are good times for professional sniffers like Shuster. Between the environmentalists, who have frightened consumers into paying more attention to what's in their food, and Congress, which keeps passing tougher product labeling laws, the testers have more business than they can handle. Among the public companies that benefit from the demand for analysis of consumer products are International Flavors & Fragrances, which analyzes and manufactures flavors and perfumes; and Hewlett-Packard and Perkin-Elmer, which make instruments for chemical analysis.

Unlike Underwriters Laboratories Inc., which tests toasters and extension cords, firms like Shuster specialize in the kinds of things you find in supermarkets: food, soaps, cosmetics and household chemicals. Shuster tests and in many cases does product development on everything from house-brand green beans and window cleaners to sanitary napkins and sunscreen—for clients seeking some assurance that their products work as advertised, are cost competitive and won't kill people if misused. Since name-brand consumer products firms spend so much money on marketing, they frequently farm out research work to outsiders like Shuster.

For example, Shuster sniffs, tastes and tests salad dressing, spaghetti sauce, popcorn and lemonade for

Newman's Own Inc., the alms-giving company founded by actor Paul Newman and author A.E. Hotchner. Ursula Hotchner, vice president of Newman's Own, used to be in charge of quality control but, she explains, "I got sick of tasting salad dressing all day." Shuster now does everything from expiration date calculation to taste tests of new products by judges with overdeveloped taste buds.

How do you know how to date cereals or vitamins? Shuster leaves them in climatically controlled rooms and then periodically tests them in the labs before turning them over to the tasters to see if any flavor has been lost or changed. True, it doesn't take an olfactory Sherlock Holmes to sniff out the telltale stench of rancid food, but Shuster uses heat and humidity to compress time and accelerate the breakdown of products, establishing when an over-the-counter medicine will lose its potency, or a box of cereal turn stale.

Shuster's microbiology lab was called into a Boston hotel three years ago after at least six guests at a wedding reception became deathly ill and had to be hospitalized. Shuster's detectives deduced which common menu item was eaten by the sick partyers and traced the problem to improperly chilled custard, a veritable petri dish for bacteria.

The company was founded 35 years ago on $1,542 in a two-room office in Boston by a former MIT professor of food technology, Herbert Shuster, now 66. Shuster may be personally embarrassed at his habit of sniffing food before he eats it, but the habit has served him well. Today his privately held firm has 110 employees and is profitable on sales of maybe $10 million. On any given day Shuster scientists can be found testing everything from mouthwash to carpet cleaners and even condoms.

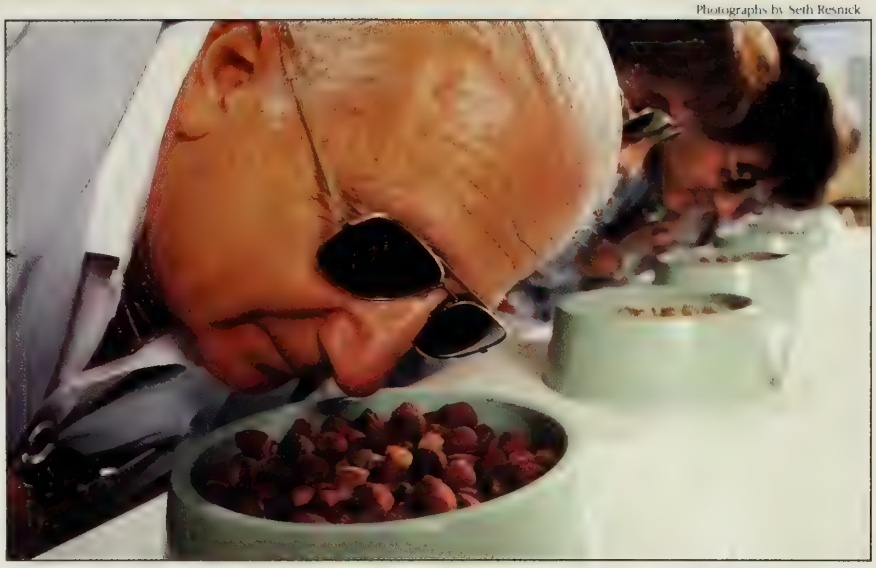
Shuster built his business by reverse engineering big-name consumer products for supermarket and drugstore chains that wanted house brands. In a lab just beyond where a woman is squeezing plastic packets of Newman's Own Salad Dressing to check for leaks, an Asian man in a white lab coat is scooping bright yellow dollops of mustard out of three king-size jars.

"Our client wants to know how his competition is able to underprice him," says the man in the coat, Ken Iwamoto, manager of the product development laboratories. By looking for differences in color and texture, Iwamoto is able to tell if the competitor is using high- or low-grade mustard seeds. High-grade mustard is bright yellow. Inferior grades are greenish yellow. Iwamoto also tastes the mustard to see if any spices have been skimped on. "The competition doesn't grind their seeds very fine," says Iwamoto. "Coarse ground mustard is cheaper."

In the world of house-brand consumer marketing, one golden rule is never try to improve on a winning name brand. That means that if you want to sell a window cleaner, forget about researching which color has the most customer appeal—Windex blue is the color consumers like. Shuster's scientists go ahead and make a blue window cleaner that is cheaper than Windex, then let the market leader do all the advertising.

When it comes to finding new clients, Herb Shuster has a lot of help from Washington. "Congress most definitely creates business for us," he says. Take the recent push in Congress for stricter product labeling regulations. In mid-July the Food & Drug Administration, anticipating pressure from Congress, drafted new rules for nutritional labeling of processed foods. Says Shuster: "The proposed regulations were printed on Friday, arrived here on Saturday, and by Monday our clients were ringing the phones off the hook." ■

Photographs by Seth Resnick



Dog food sniffers (top) wear dark glasses to avoid visual bias; a panel ranks brands of used kitty litter (above)

Shuster executives analyzing shaving creams

Don't improve on a name brand. Just copy it.

Commentary by Michael Gianturco

BULLISH ON BIOTECH

With the carnage in the broad market, many investors in science and technology stocks have been wondering how low this sensitive group can go. The Dow dropped 16% from mid-July levels, but the Pacific Stock Exchange Technology index, which shows us a clearer picture of these stocks, fell 27%.

In biotechnology, headlines devastated the stock of Cetus Corp., the granddaddy of the industry. An FDA review committee did not approve Cetus' interleukin-2 for the treatment of kidney cancer in the U.S. Then the company's president quit, and a huge $61.5 million loss was reported. By late August the stock was trading at about $7, or roughly one-third of its value six weeks earlier. Yet the bad news from Cetus has masked a good show of strength from the other biotech stocks.

The table suggests how the group has been faring lately. These top-performing biotech stocks are ranked in order of their stock market price changes over the last six weeks. Certainly the biotechnology group retreated along with the broad market. But, the biotech stock leader, Amgen, is trading at a level that is up 10% from its value at midsummer, just before the slump began. Compared with the other technology industry stock groups, the biotechs have held their value remarkably well.

As the market begins to come back, biotech stocks will be among the first to recover. Why? What's behind this new strength?

Some of the economic currents induced by the oil crisis actually affect the biotech group in a positive way. Inflationary forces weaken the dollar, and a weak dollar always gives the pharmaceuticals a lift. Biotech stocks are closely aligned with pharmaceutical stocks and share in their price swings.

But there is a much stronger force driving biotechnology this summer.

David Webber, who follows the group for Alex. Brown & Sons, explains: "The driving force is products. Lots of products."

Consider that it has now been roughly ten years since the biotechnology industry first began to emerge as publicly held companies. Many of them did not hesitate to raise investors' expectations by hyping drugs that were years away from the market. The sad lesson for these companies and investors who bought their shares is that there can be a very long wait between a press release and a product release.

Over the span of the entire past decade, only seven distinct and highly significant products were brought to realization by the fledgling industry. The first three came out of Genentech between 1982 and 1986: insulin, which is licensed to Eli Lilly; human growth hormone, which Genentech kept; and an immune stimulator, alpha interferon, which was licensed to Hoffmann-La Roche. (An alpha interferon was also developed at Biogen, and licensed to Schering-Plough.)

In 1986 Chiron's hepatitis-B vaccine came on the market. Merck makes it under license. In the same year Johnson & Johnson's Ortho Pharmaceuticals introduced OKT-3, a drug which helps prevent kidney transplant rejection.

In 1987 Genentech brought out its tissue plasminogen activator (TPA), which can be used to dissolve blood clots, most notably in heart attack patients. Finally, in 1989, Amgen began selling its Epogen brand of erythropoietin, an anti-anemia drug. In the aggregate, worldwide sales of these seven major products are generating $1.25 billion annually.

But now, in 1990 and 1991, eight more major products are imminent. In just one year we should see as many new drugs and tests come to market as the entire industry launched in the past decade. Already this year the Food & Drug Administration has approved a promising blood-test kit for hepatitis-C from Chiron.

Other significant new biotechnology products that are due to hit the market soon will come from Genzyme, Amgen, Schering-Plough, Baxter International (using technology from Genetics Institute), Miles Laboratories (using technology from Genentech), Centocor and Xoma.

Real revenues from products now being shipped already are making an important impact on earnings for some biotechs. For example, the hepatitis-C test from Chiron was approved in May, and Chiron's earnings report for June showed its first-ever profit based on product revenue. Biogen shows substantial royalty revenue from its hepatitis-B vaccine patents. And for the quarter ended in June, Amgen earned 29 cents a share, versus 2 cents a share in the same quarter last year.

As a group, the biotechnology companies are becoming real. They are making fewer promises and selling more products. Amgen is the conservative pick. It has had a long runup, but I would buy it on market dips; it is quick to rebound. ■

Biotechnology survives

As a group, technology stocks fell 27% from mid-July levels. The biotechnology stocks lost least and will probably recover first.

Company	Six-week change	Recent price
Amgen (o)	+10%	45
Genentech (N)	−8	26
Chiron (o)	−12	35
Biogen (o)	−12	22
Life Tech (o)	−16	16
Synergen (o)	−17	10
Centocor (o)	−18	37
Genzyme (o)	−18	18
Diagnostic Prod (N)	−19	35
Cytogen (o)	−21	9

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Michael Gianturco is president of The Princeton Portfolios, a New Jersey asset management firm, and edits The Top Ten, *its weekly computerized newsletter on investments in science and technology.*

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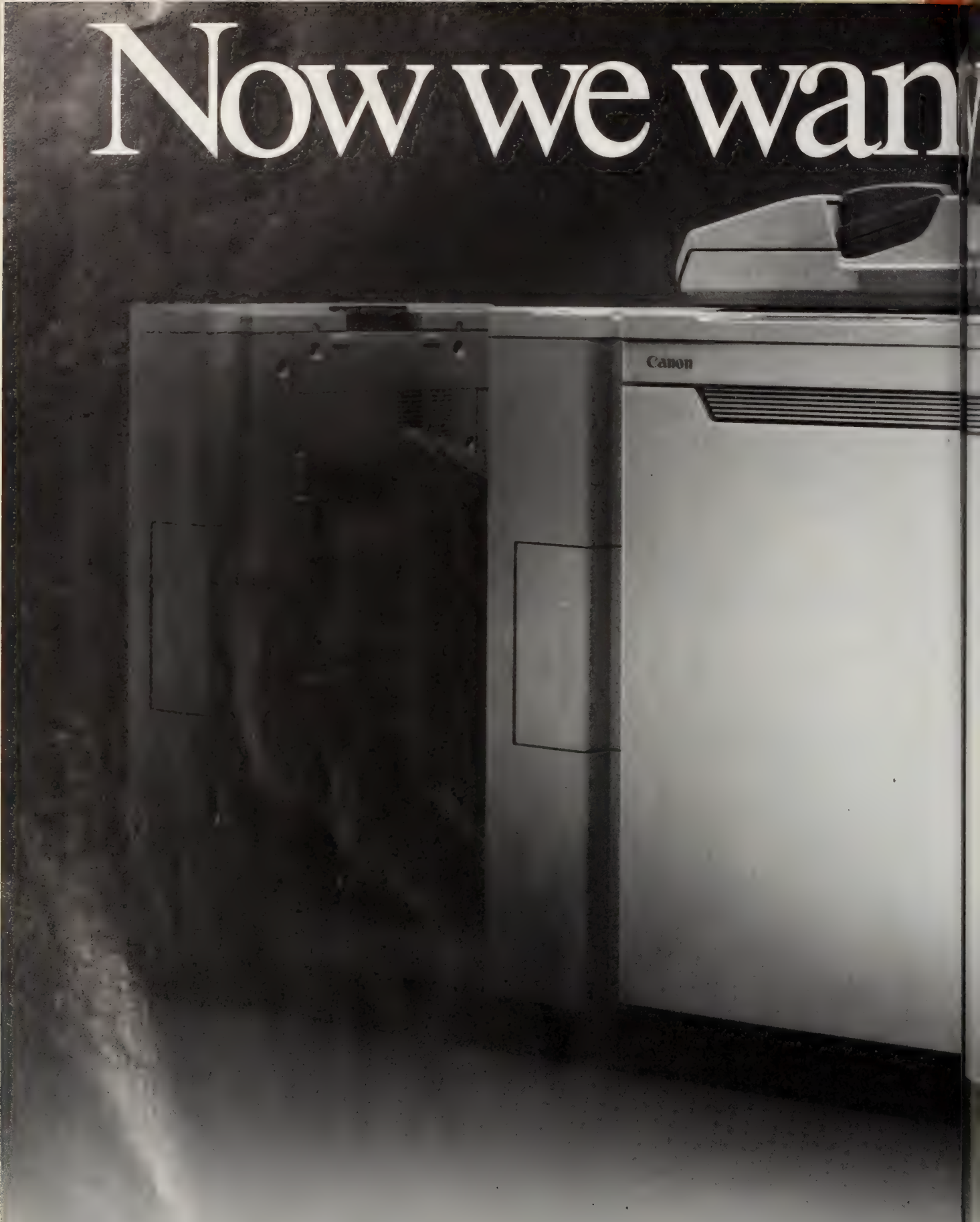

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Personal Affairs

Edited by William G. Flanagan

Thinking of using Prodigy? Our reviewer rates it high on buying services, convenience and cost, but would like a lot more news and information for grown-ups.

Two and a half cheers for Prodigy

I HAVE GOT TO hand it to the guys who are developing Prodigy, but I've got a few bones to pick, too. Prodigy is the databank-cum-ads service introduced by IBM and Sears in October 1988.

By linking home computers to Prodigy over local phone lines, the idea was to give customers a cheap world of information at their fingertips, as well as an easy, fast way to buy almost any product or service.

To a remarkable degree, it works. You can shop for a car, buy airline tickets, stocks and mutual funds, send and receive electronic mail nationally, read the news, check the local weather, get the latest ball scores, and a great deal more, all from your own PC.

I had strong doubts about Prodigy, based on what had happened with other videotex efforts. And I was admittedly spooked by the electronics. Would enough people even be able to hook it up?

But this spring I was dragged kicking and screaming into the Nineties by my spouse. After she insisted we buy a new computer so she could run her Lotus spreadsheets, I figured I'd give Prodigy a try. They were running a special (they always seem to be running a special) on the Prodigy system in the Computer Store, in midtown Manhattan. Price: $99 for the modem and software you need to tie your computer to Prodigy. An added bonus: three months' free service.

A welcome surprise: The modem and the software were easy enough for even klutzy me to install, after making only two calls to the Prodigy service department.

Michael Gluck

Prodigy offices, White Plains, N.Y.

Today, after I've been on-line a few months, my friends will tell you I am a bore on the subject of Prodigy's merits and potential. But it isn't perfect. Herewith an appraisal:

User friendliness. You set up your own menu of categories of information and services you think you will want to see most. So, for example, whenever I log on with Prodigy, I get, in order, headline news, business news, industry news, stock market updates, sports scores and information, consumer news, my horoscope, the local weather, and people news. All updated often.

But you can switch around to any category you wish—from headline news, say, to your horoscope—by hitting the Jump button. Basically the system is child's play to use. Indeed, kids are eagerly wooed as customers. And later this month Prodigy will welcome students back to school by making available, on-line, the 9-million-word Grolier's *American Academic Encyclopedia* at no extra cost.

The graphics of the system are a bit stiff, and not very dazzling. And the speed is sometimes annoying. But improvements are said to be on the way. **Grade: B.**

Cost. After you buy the initial hardware, your service cost runs just $9.95 a month, no matter how often or how long you access the system. Of course, there are also the local (not long-distance) telephone line charges. If, like most phone customers, you can have untimed local service, that means it will cost you about 10 cents or less every time you dial Prodigy, no matter how long you are on-line. That's astonishingly cheap compared with similar services.

For example, information databanks such as CompuServe, Nexis or Dow-Jones News Retrieval can cost hundreds, even thousands, of dollars a month for active users, because of much higher line charges and fees. Of course, Prodigy doesn't offer their sophisticated databases, either.

How can the Prodigy service be so cheap? As with television, newspa-

Gary Henrie

pers and magazines, thank the advertisers. Prodigy now has 200 advertisers, each paying between $10,000 and $80,000 per year (depending on the ads' complexity) to tout their wares across your computer screen. Vendors also pay a portion of their sales, estimated at 4% to 6%, back to Prodigy, similar to the commissions credit card companies charge. Says vendor Peter MacMurray, owner of PC Flowers in Manassas, Va., "After only six months of being on Prodigy, we've become one of FTD's top-selling stores. We're very, very pleased with it." **Grade: A.**

Buying services. The array of goods and services you can buy through Prodigy is bewildering—from cars to cruises to Levis to stocks to books.

The convenience of being able to place a grocery order, take care of your banking, browse a Spiegel catalog, check out a flight schedule and make plane reservations, send flowers or buy office equipment, all with a few keystrokes, is unexcelled. To date there are well over 800 services available, and 60 more are in development.

To help you with all those buying decisions, there are ads, of course. They are constantly splashed across the bottom of your screen. Want to know more about a product or service? Just hit a button. (You can even check recent issues of *Consumer Reports.*) **Grade: A.**

Investor services. Using Prodigy, investors can buy and sell stocks, bonds, load and no-load mutual funds, options, etc., through a discount broker owned by Donaldson, Lufkin & Jenrette. Other full-service and discount brokers also advertise. You also get partial access to the much more expansive, and expensive, Dow-Jones Retrieval System, including quotes on virtually all listed stocks and bonds (15-minute delay), reports of companies in the news, investor advice, etc. You can program up to 30 stocks, bonds or funds so you get those quotes at the touch of a button. You can even ask other Prodigy users for stock tips or financial advice via the interactive bulletin board. Soon you will be able to browse research reports on individual companies, courtesy of Donaldson, Lufkin & Jenrette.

Still, I'd like more research reports, more financial articles, better financial columnists and more sophisticated investment data banks. **Grade: B.**

Reliability and Prodigy service. Not as good as I expected. There have been unexplained interruptions and difficulties in getting on-line. And the so-called toll-free 800 service number only directs you to a toll-call number in White Plains, N.Y., Prodigy's home. **Grade: C.**

General news service. This is where the system needs the most help, in my view. The news offered is too little, too late, and is left on the screen too long. This service should be updated more frequently, and there should be more news offered, with more informative graphics (such as the recent maps of the Middle East, which were excellent).

And why can't we get top columnists, even a day late? Or political and other cartoons? Suggestion: Al Neuharth, who started *USA Today,* doesn't seem to be doing much these days. Perhaps Prodigy should hire him to figure out ways of cramming more information, in pictures and words, onto the screen.

More should be made of the Prodigy polls. Late last month, for example, Prodigy polled subscribers on two issues:

1. Do you support Bush's deployment of troops in the Mideast?

2. Did gas prices go up at your local gas station?

In all, 15,000 users responded—a much greater number of respondents than most news polls get. Yet news organizations didn't cite it. **Grade: D.**

Only eight months after it was launched in 1988, Prodigy had already signed on 65,000 households in 13 markets. FORBES then questioned chairmen Edward Brennan of Sears and John Akers of IBM about Prodigy's future. Against all the skeptics, Akers and Brennan were confident of its success. It looks like they were right. Today, less than two years since start-up, there are 455,000 Prodigy members, in 260,000 households. The company says revenues per user have been growing 10% to 15% a month, and it expects to be profitable in the early Nineties.

The potential audience is awesome. Today, there are 26 million households with computers. Of that number, 10 million have computer systems (IBMs and compatibles, and Apple Macintoshes) that can tie into Prodigy. (IBM's new $999 PS I comes with Prodigy built in.) As of this month, Prodigy is available everywhere in the continental U.S., and 90% of customers can access the service with a local phone call.

It would seem Prodigy can't miss. But its executives have the chance to create a first-class news and information service, as well as a dandy shopping service.

And, editorial consultants will tell you, the better the news and information, the better the quality of the subscriber, and the more time he or she will spend with the system.

—W.G.F. with Evan McGlinn

Collectors

There is probably more fake scrimshaw floating around than there are genuine pieces, but former IBM chief Thomas Watson Jr. gets a kick from collecting both.

Toothsome opportunities

By Christie Brown

WHAT DOES Thomas Watson Jr. have in common with 19th-century whaling men? A love of challenges. And scrimshaw.

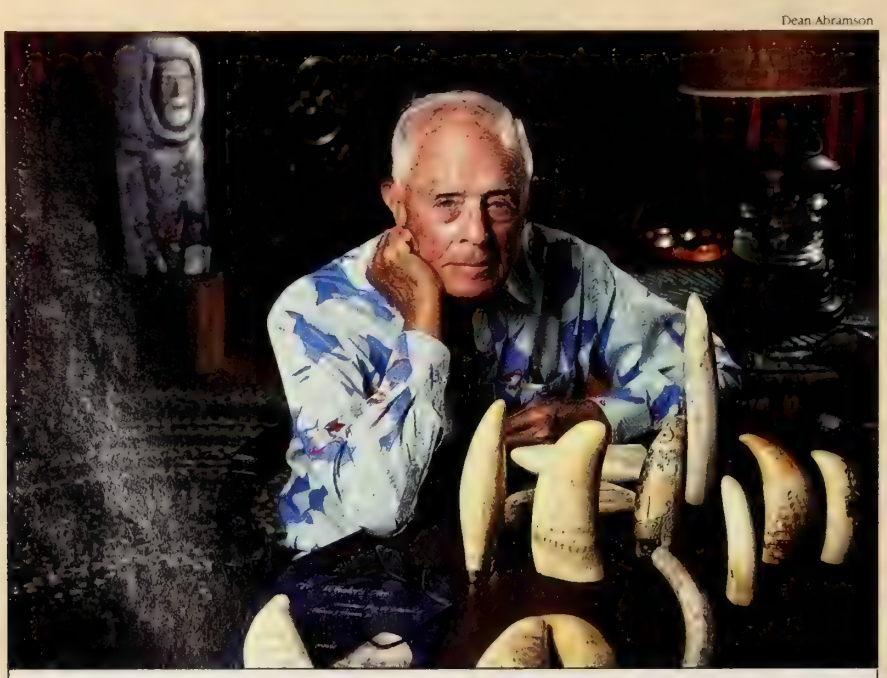
Over the last 30 years, during which he also ran IBM (1956 to 1971) and served as ambassador to Russia (1979 to 1981), Watson has amassed one of the finest scrimshaw collections in the country. It includes 200 intricately carved pieces, all made of whalebone by American whalers. The pieces include walking canes, inkwells, pie crimpers and corset busks, as well as carved teeth.

The collection, which he thinks is worth about $250,000, is scattered throughout his homes in Greenwich, Conn. and North Haven Island, Me. An avid sailor, Watson also plans to put some pieces on the new boat he is getting next March, a 75-foot Hood sloop. An energetic 76, Watson not only still sails, he also flies helicopters and stunt planes *(see box, p. 219).*

Scrimshaw flourished during the heyday of American whaling, 1820-70. Hunting voyages often lasted several years, and months could go by with no whale in sight. To pass their idle hours, sailors made scrimshaw—carving bones and teeth into decorative or household objects. There was usually plenty of raw material: Whalers dragged the head on deck to tap the most valuable oil, found in the whale's brain. The leftover teeth and jawbone, which had no market value, were picked up for carving.

Few whalemen were natural artists, but plenty were adept with a jackknife or sailing needle. Little else was needed for scrimshaw. After filing and polishing a whale tooth smooth with sharkskin, the "scrimshanders" often chose a picture to copy from a newspaper or book. They dotted out scenes

Dean Abramson



Thomas Watson Jr. at home with some of his scrimshaw
Commissioned a carving when brother Arthur became ambassador.

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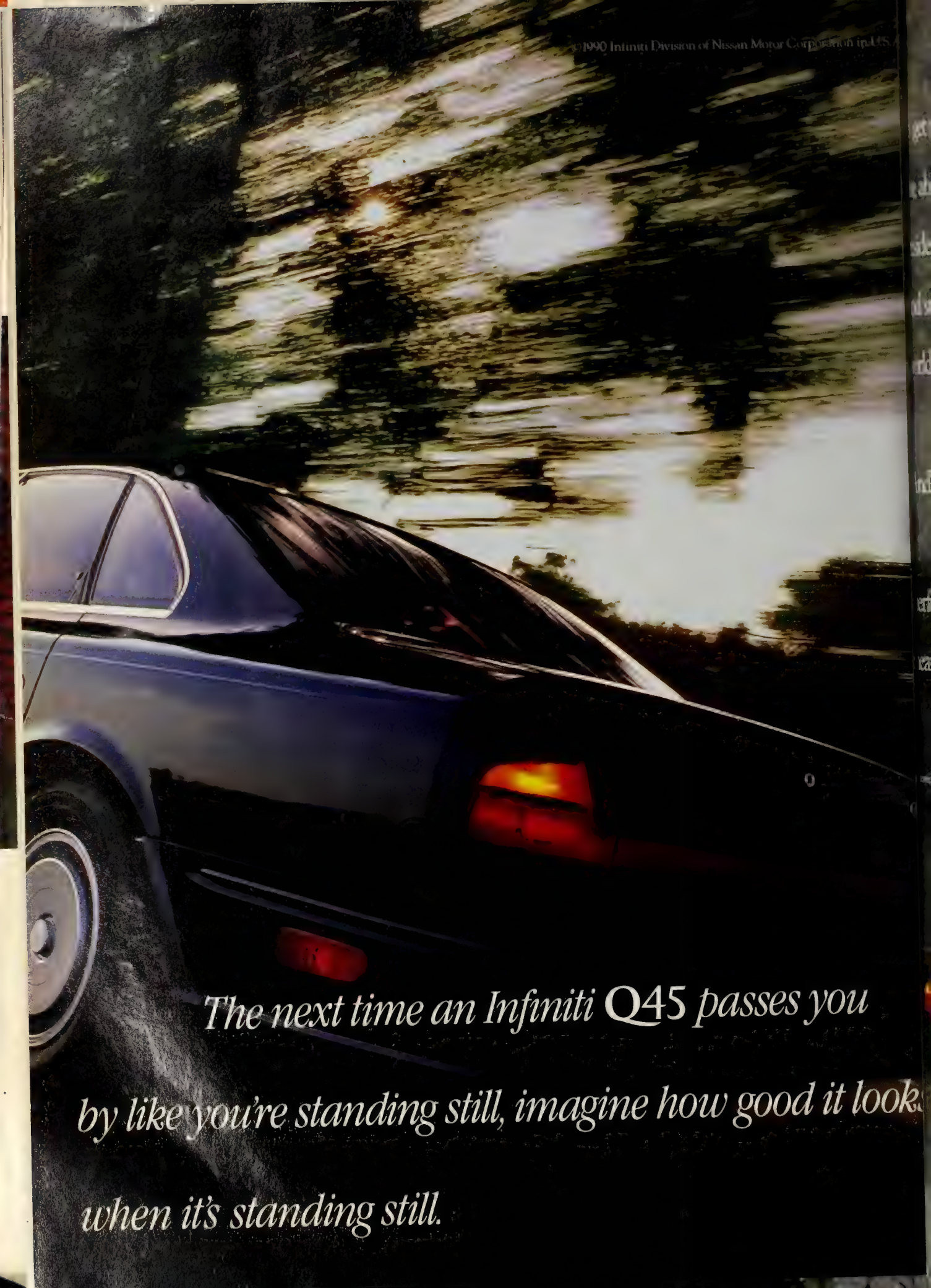
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Photographs by Richard Frank

Washington crossing the Delaware, depicted on a 10-inch-long whale tooth
Loaned from Watson to the Bruce Museum, Greenwich, Conn.

with a needle, then connected the dots into lines. The lines were then colored with ink, lampblack or tobacco juice.

Watson, like many collectors, finds particular pleasure in the stories that many carvings tell. Take Watson's rarest and most valuable scrimshaw, a pair of 27-inch-long walrus tusks. One is inscribed "Jas. A. Norton, his record kept aboard the ship *Eliza Adams* of Fairhaven (Mass). Nov. 25, 1835-July 1838." Carved across both tusks in great detail are 14 harpooned whales, the dates and locations where they were taken, the amount of whale oil rendered by each. There is also a sketch of Quito, Ecuador, where the boat made a landfall. At the end is written "Love to my Mary."

If Norton's scrimshaw diary is Watson's rarest piece, his favorite is a 6-inch-high sperm whale tooth. One side shows two ships at war (probably French and English). "Turn it over," Watson laughs. "On the other side, they've blown each other up."

Watson came upon scrimshaw for the first time in the early 1960s. Or at least he thought he did. He bought three whale teeth for $600 from an antique shop in Maine. But an expert soon clued him they were mid-20th-century copies, not 19th-century originals as the dealer had said. Most collectors would have screamed for the dealer's head; not Watson. He still liked the carvings, modern or not, but not at that price. He struck a highly unusual deal with the naughty dealer, which allowed Watson to cut his cost basis. He bought all the fake carvings the dealer had—35 more pieces—for only $100 each. Watson still has them, and they are now worth considerably more.

Whaling on a whale's tooth
Pieces were seldom signed.

While most scrimshaw collectors consider 20th-century scrimshaw akin to modern copies of Old Master paintings, the art is still practiced today. Probably the best-known modern scrimshander was the late Milton Delano, whom Jackie Kennedy once commissioned to carve the Presidential seal onto a whale tooth, a gift to her husband. John Kennedy was a scrimshaw collector and liked that piece so much it was buried with him.

Impressed by that story, in 1970 Watson himself commissioned Delano, who lived in Fairhaven, Mass., to etch a whale tooth for his younger brother Arthur, commemorating his appointment as ambassador to France. Watson also enlisted Delano to hunt out antique scrimshaw for him. "I thought I had better latch onto someone who really knew this stuff," says Watson.

It was a smart move. Watson didn't have the time or the experience to avoid getting burned. For years, Milton Delano found objects for him, and since his death in 1988, his widow, Virginia Delano, has taken over as Watson's trusted scout for scrimshaw. Along with private sales, one of Delano's best resources is Bourne's auction house in Hyannis, Mass., not far from where New England's whalers once put in.

Watson still buys fakes sometimes. Purposefully. He likes comparing them with the real pieces he owns. "I bought a fake piece of scrimshaw just the other day on the Ponte Vecchio in Florence," he says gleefully. "They said it was real, but I knew it was made out of denture material." He thought his denture whale tooth an interesting buy for $60.

Scrimshaw is valued by size, artistry and condition. A good whale tooth with a fine carving can cost less than $2,000. Watson has rarely spent more than that.

However, pieces that were signed and dated by sailors have always commanded a high premium. Very few real pieces were actually signed; many fakes are. (Two quick giveaways to plastic fakes: There's no natural ivory grain and the root of the tooth is usually too smooth; a hot pin will pierce plastic, but not ivory.)

One of the best-known scrimshaw artisans was Frederick Myrick. In the late 1820s Myrick carved and signed about 25 teeth portraying his ships,

Susan and *Barclay*. A "*Susan* tooth" is now one of the most sought-after scrimshaw collectibles. One brought $44,000 last year at Bourne's, tying the record for scrimshaw. In 1982 Sotheby's had hammered down another *Susan* tooth for $44,000. As you'd expect, fake "Susans" abound.

Watson likes to share his love for scrimshaw. His collection was on loan to the Bruce Museum in Greenwich this past summer. He says he is still unsure about what will happen to the collection eventually.

You can also see superior scrimshaw collections at the Mystic Seaport Museum, Mystic, Conn.; the Whaling Museum, New Bedford, Mass.; and the Kendall Whaling Museum, Sharon, Mass. The Kendall also puts out a monograph entitled *Fakeshaw*, a checklist to help collectors avoid fakes. At $4, the book is well worth its cost.■

Collecting experiences

Photographs by Dean Abramson

When his doctors advised Tom Watson Jr. to retire from IBM in 1971 after he suffered a heart attack at the age of 56, "there were so many things I wanted to do. And I have been doing them ever since," he says. Among these things was flying stunt planes, which Watson, now 76, took up six years ago.

Watson has been an avid pilot since he was in his teens. In his outstanding autobiography, *Father, Son & Co.* (with Peter Petre; Bantam, $22.95), Watson describes how his World War II service as a pilot gave him the self-confidence to successfully follow his dynamic father into IBM. Watson retook to the air with a vengeance when he left IBM, logging 2,000 hours in the first five years of retirement and another 15,000 since then. He has plenty of aircraft to choose from, with a personal fleet that includes a Learjet, a Breezy, a Twin King Air, a Taylor Cub, and a Bell Jet 206 helicopter, for which he was licensed at age 65.

But his pride and joy is his stunt plane, a brand-new red-and-cream Pitts S2B. The high-tech model, made by Christen Industries, weighs only 850 pounds and has a 260hp engine. Watson has perfected a stunt show featuring inward loops and upside-down flying. And for the finale? A fly-by where he flashes the underside of the wings, on which is written "Old Boy."

All this overhead action takes place part of the year at Watson's summer home on North Haven Island, Me. His low and rambling home is situated on 330 hilly acres that Watson and his wife, Olive, bought in 1962. The air fleet is right at hand—a grass airstrip runs up from the sea to his front door.

Watson is rarely still even on the ground. He rides a motorcycle around the property, dodging mouflon sheep. He also tinkers with antique cars, and has four Ford Model T's dating from 1914 to 1926. He keeps them on the island to teach his grandchildren how to drive.

When Watson first retired, his greatest fear, he says, was being "dead in the water." But before long he was setting sail. Within a year he took *Palawan*, his 60-foot sloop, to Newfoundland. That trip has been followed by a cruise to the Arctic Circle, a solo voyage to the Caribbean and crewed voyages around Cape Horn and up the Hudson Bay. In March he's taking delivery of his seventh boat named *Palawan*, the 75-foot fiberglass-hood sloop. Why is it sloop-rigged? "So I can single-hand it whenever I want," says Watson.—**C.G.B.**

The wrench-wielding Watson surrounded by his airfleet and Model T Fords

Taking his Breezy for a spin

Doing a fly-by in his stunt plane

As there is risk in every business and career decision, so is there risk in Hong Kong's future. Yet it remains fertile ground for Americans seeking their fortunes.

Danger and opportunity

By Andrew Tanzer

FAR REMOVED from Saddam Hussein's Middle Eastern violence, it is business as usual for the American expatriates building their fortunes in Hong Kong. Is Beijing's communist government a threat when the colony's lease expires in 1997 and the city-state falls under Chinese sovereignty? Maybe. Will a U.S. recession clobber export sales? Perhaps. But for these Americans such are the everyday risks of doing business in a corner of the world that remains committed to laissez-faire economics and the pursuit of profits. As Los Angeles native Ira Kaye, 72, who achieved great wealth running a garment trading business in Hong Kong, describes his adopted turf: "This is the only place where you can conceive of an idea at 9 in the morning, incorporate by noon and make your first profit by 6 p.m."

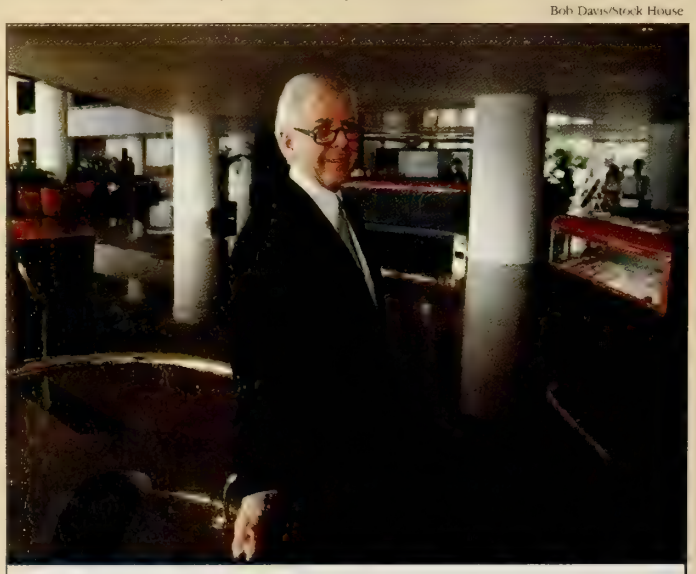
Encouraging Hong Kong's growth have been booming economies throughout Asia, and the kind of tax system for which supply-siders hunger. Hong Kong levies a flat 16.5% corporate tax, a 15% individual income tax, and no tax on capital gains or dividends. With a minimal colonial government and a local population composed mainly of refugees from China, it's a frontier town and a relatively open society. "Everybody is a foreigner," explains Robert Theleen, a successful American venture capitalist in Hong Kong. "It's the only place in Asia you can start a business on an equal basis with a local."

We look at three American businessmen who have amassed sizable fortunes running Hong Kong businesses: one in hotels, one in garments and one in publishing. None pretends to know the colony's future after 1997. But all say they're staying put and would encourage younger entrepreneurs to follow their lead.

The hotelier

Today Robert Burns owns a 65% stake in Regent International Hotels, a $350 million (sales) company that operates 15 luxury hotels, comprising about 7,500 rooms, around the world.

Bob Davis/Stock House



Robert Burns, chairman of Regent International Hotels
"Setting up a company here was like rolling off a log."

As a teenager, Burns worked in the laundry room of two New Jersey beach resort hotels; while a student at New York University before the Korean War he worked as a waiter at the Waldorf-Astoria. He studied hotel management after the war at Michigan State University, business administration at the University of Michigan, and then went to work in the food and beverages division of Sheraton Hotels.

In 1963, in his 30s, Burns quit Sheraton to work for the Kahala Hilton in Honolulu, eventually becoming general manager of the hotel. Hawaii was a grand place from which to look west. Burns quickly realized that because of higher occupancy rates and cheap and efficient labor, the hotel industry was more lucrative in Asia. "We can do 45% to 55% [of revenues] gross operating profits in most cities in Asia," he says. "In the U.S. and Western Europe, 30% is very good."

So in 1970 Burns, then only 41 years old, left Hilton and Hawaii and formed Regent in Hong Kong with an investment of $270,000 and Japan's Tokyu Group as his partner (the American hotelier bought out Tokyu's two-thirds stake in 1973). Says Burns, "Setting up a company here was like rolling off a log."

Regent expanded by offering the upper tier of business travelers quality service and luxurious, spacious rooms in prime locations in business capitals such as Hong Kong, Bangkok, Singapore and Sydney. Running out of locations in Asia, Burns is now following his peripatetic customers into the U.S. and Europe. In 1992 he'll open a hotel on East 57th Street in Manhattan, Regent of New York, with rooms starting at $400 a night. The hotel will be owned by EIE International of Japan but managed by Regent. This year the silver-haired 61-year-old will open his first European hotel, in the fashion and financial center of Milan, and is planning to move into London and Brussels as well. In all, Burns will add ten hotels to Regent's stable over the next few years.

The mountain gear man

Beginning in the 1970s, rugged outerwear from companies like North Face and Sierra Designs became de rigueur weekend garb for young Ameri-

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NORTHWEST AIRLINES

can professionals. William Simon, now 43, was there to capitalize on his generation's whims.

Simon, a native of Detroit, co-owns and runs Odyssey International Ltd., a Hong Kong-based maker of sportswear, skiwear, outerwear, tents, sleeping bags and backpacks. With annual sales of around $200 million, Odyssey sells to outdoors-oriented firms like L.L. Bean, Eddie Bauer, Lands' End and Fila.

In 1972, after undergraduate and graduate studies in English literature at the University of California, Berkeley, the intense, fast-talking Simon cofounded Snow Lion, a backpacking and mountaineering equipment company. Before long he began traveling to Asia to buy duck down and feathers for the company's jackets. In 1978 Simon left the firm and set up Odyssey in Hong Kong with an investment of $200 and contracts from overseas customers.

Simon built his business by convincing American, European and Japanese suppliers of high-quality camping equipment and outerwear to move their production to cheap-labor countries in Asia. Odyssey started as an agent, subcontracting production to factories in Asia for overseas customers. But the ambitious Simon soon acquired his own factories (he has seven now) and moved into design and manufacturing, to assure quality and earn higher margins. Today Odyssey designs 60% of the products it makes. To strengthen distribution, Odyssey two years ago bought North Face, a $75 million (sales) Berkeley-based down jacket manufacturer, for $11 million.

Like hotel man Burns, Simon plans to continue operating his fiefdom from Hong Kong while expanding aggressively abroad. Over the next five years Simon plans to acquire or build about 20 factories, many of them in the U.S., to be near customers and to avoid import barriers. In order to fund this breakneck expansion, in June he raised $100 million from a Japanese investor, Victoria Co. Ltd., a sporting goods retailer, diluting his own stake in Odyssey from 86% to just under 40% but retaining management control for five years. His stake in the company is worth around $60 million.

Fears of the communist takeover of Hong Kong in 1997 do not faze Simon, who says he wouldn't think of moving back to the U.S. "You see opportunities all the time here you wouldn't see in the U.S.," he explains. "This is the last bastion of pure capitalism in the world."

The publisher

University of Nebraska graduate Merle Hinrichs, 48, founded Trade Media Ltd. in Hong Kong back in 1970. Today his rapidly growing empire of foreign-trade-related publications includes 14 monthly magazines, 2 newsletters and 7 books explaining the nuts and bolts of how to import from individual Asian countries. His company's sales, expanding at 25% a year, were $55 million last year. Hinrichs won't disclose profits, but industry sources believe that net margins probably amount to 30% of revenues or better.

The heart of Hinrichs' business is his Asian Sources group of trade publications. These telephone-book-like magazines report on Asian export industries such as computers, consumer electronics, timepieces, hardware, giftware and fashion and accessories. The monthlies are 70% to 75% advertising; a typical issue of the computer magazine, for instance, is 800 pages, 600 of them ads. Circulation ranges as high as 30,000 per magazine, and annual subscriptions cost as much as $275 (air mail). Read primarily by overseas manufacturers, importers, wholesalers and retailers, the articles provide information on the constantly changing prices, quality, delivery and specifications of the products.

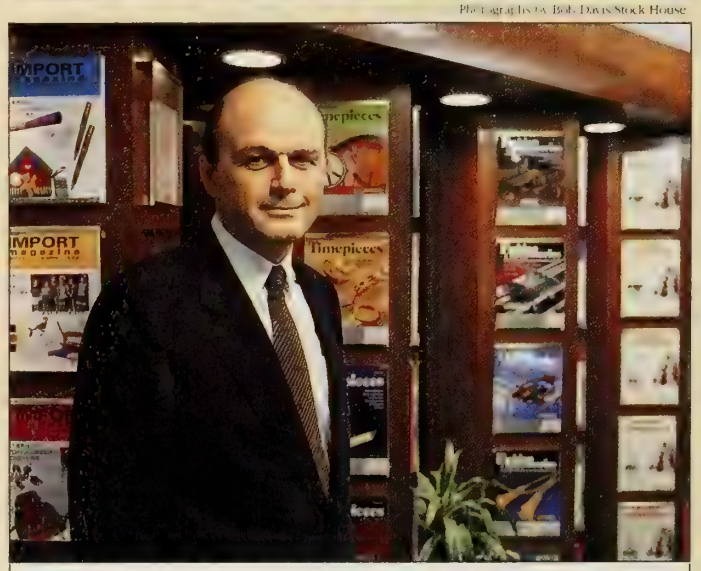
Hinrichs is already making preparations for 1997. He is considering moving some of his printing and distribution operations to Southeast Asia. But like most other wealthy American expatriates in Hong Kong, Hinrichs himself vows to stick around. Says he, "I want to be here for the drama."

With thousands of Chinese emigrating from Hong Kong every year, is the free-trade entrepôt still a good place for young American entrepreneurs to pan for gold? The Chinese word for crisis, *weiji*, connotes both danger and opportunity. The word fits Hong Kong well.

American venture capitalist Robert Theleen calls 1997 the ultimate gamble and predicts that it will spawn a whole new generation of entrepreneurs. "The greatest risk to Hong Kong's vitality," Theleen says, "is if it were perceived to be a place of long-term economic stability." ■

William Simon, founder of Odyssey International Ltd.
"This is the last bastion of pure capitalism."

Photographs by Bob Davis/Stock House



Merle Hinrichs, founder of Trade Media Ltd.
"I want to be here for the drama."

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Faces
Behind the Figures

Edited by Jason Zweig

Bruce's greater fool

John Chiasson/Gamma Liaison

Investment banker Bruce Wasserstein
Fortunately, there was Michael Dingman.

The Henley Group Inc., the New Hampshire-based conglomerate assembled by asset-shuffler Michael Dingman, may finally have finished reshaping itself. The missing man in that long struggle: Dingman's former financial adviser, Bruce Wasserstein.

In April 1988, just two months after leaving First Boston to found Wasserstein, Perella & Co., Wasserstein teamed up with Dingman to buy Pneumo Abex from IC Industries for $1.2 billion. Wasserstein, Perella and Henley each put $50 million of equity into the new entity, PA Holdings, which makes landing gear, hydraulic components and automotive brake parts. Subtract its $10 million advisory fee (paid by PA), and Wasserstein, Perella got 50% of PA for just $40 million of its own capital. In June 1989, less than a year after the deal was completed, Wasserstein talked Dingman into buying his stake for $165 million. Henley alone now stood behind all PA's debt. Nice work if you can get it.

Soon after, the junk bond market crashed and the Berlin Wall fell, delivering a double whammy to PA Holdings, which depends on the military for nearly 40% of its revenues. For the first half of 1990, sales were off 5%, to $430 million, while operating income fell 10%, to $57 million.

This May Dingman tried spinning off 100% of PA's stock, but bondholders say PA's bankers balked. In June Dingman scaled back the spinoff, offering only 35% of PA's stock and putting no additional capital into the company. Again, no deal.

Last month Dingman at last gave up on unloading PA, announcing instead that Henley would spin off or sell virtually all its assets except PA. Henley immediately agreed to sell a crown jewel—its 38% stake in Chicago investor Sam Zell's Itel Corp.—and expects to spin off its Fisher medical equipment division some time after October.

Today PA is worth perhaps $850 million—nearly 30% less than Henley and Wasserstein paid for it just two years ago. Dingman, who originally intended to wring value from PA partly by busting it up, now will have to run it as an operating business.

And Wasserstein now appears to be a magician of a higher order. After overpaying for a company, he found a greater fool and got out at a fat profit while the getting was still good.

Underwater but holding on

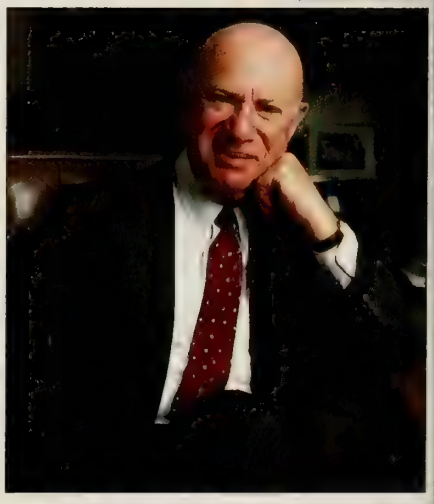
When will the New England slump bottom out? Billionaire Laurence Tisch may think it already has. He certainly hopes that the end is near.

Tisch, the chief executive of CBS, Inc., now owns, along with his four sons and his brother Preston, 8.9% of Bank of Boston Corp. *(see story, p. 136)*. The Tisches began buying the stock last October at around $22 a share. Then they sold off several hundred thousand shares between 16 and 19½. But when the stock sank below 16 this April, the Tisches bought back in and took another big bite in early August, when the stock dropped below 10.

To avoid triggering the bank's newly issued poison pill, the Tisches are unlikely to raise their stake above 15%. Just as unlikely is that they will soon sell out. The cost of their investment is now around $110 million; its value is around $56 million.

What attracted the astute Tisches to Bank of Boston? It's a hedged bet on New England. The nation's 16th-largest bank holding company, Bank of Boston has 36% of its $37 billion in assets committed in the U.S. outside of New England. The bank also has a strong retail and commercial presence in 25 foreign countries, including corporate banking in Europe and active

Jonathan Levine/Onyx



Investor Laurence Tisch
Averaging down at Bank of Boston.

trade-financing operations in the Far East. Foreign operations contributed $97 million in net income last year, keeping the parent company in the black. The bank has cut its exposure to Third World loans from $1.2 billion in 1987 to $201 million, and has reserved $722 million against further deterioration in its domestic real estate portfolio.

With a total market cap of $630 million, it must look cheap to billionaires who liked it when it was priced at more than twice that level less than a year ago.

Sue and be sued

Being sued for fraud by an army of angry shareholders was apparently not a full-time distraction for Richard Grassgreen. The chairman of Enstar Group, Inc. and president of its equally troubled predecessor, Kinder-Care, Inc. *(see* FORBES, *May 16, 1988 and Apr. 30, 1990)*, has been busy making life miserable for a little company in Cadillac, Mich. called Kysor Industrial Corp.

A group controlled by Enstar owns 13% of Kysor, which makes refrigeration cases and transportation equipment. In December 1989, a year after buying its stake, the Enstar group

Enstar's Richard Grassgreen
From Kinder-Care to stock raids.

sued Kysor, charging that the company had improperly issued shares to its employee stock ownership plan. Later, in an apparent effort to stir up takeover talk, the Enstar group revealed that a confidential committee of Kysor's directors was exploring a recapitalization or sale of Kysor. And at Kysor's spring annual meeting, an Enstar representative harangued management for its ineptitude and demanded that Chairman George Kempton resign, even though Kysor's earnings had grown by an average of over 30% a year for most of the 1980s.

With Kysor's stock brushing 8—far below his likely average cost in the high teens—Grassgreen has probably just begun to fight. It's a shame he doesn't spend more of his energies at Enstar, which last year lost $151 million and so far in 1990 has lost $2.3 million on continuing operations.

Using his bean

As if the Japanese economy weren't hyperactive enough already, Hiromichi Toriba is giving it an extra boost. Toriba, 52, is president and sole owner of Doutor Coffee Co., Japan's largest and fastest-growing chain of coffee shops (1990 estimated sales, $80 million).

Before Toriba, coffee was a Western luxury. Japanese coffee shops served a thimbleful of java for $2 to $4 amidst sofas, elegant china and soft music.

Toriba got the idea for quickie coffee shops after visiting Paris and seeing businessmen stop in cafés on the way to work and drink their *café au lait* standing up. If even blasé Frenchmen craved a quick pick-me-up, wouldn't Japanese businessmen-on-the-go relish a stimulant stronger than their customary tea? So Toriba—then a coffee wholesaler—opened his first coffee shop in Tokyo in 1980.

Toriba sites his franchised Doutor shops in the teeming business districts of Japanese cities. "Everything moves so fast in Japanese society that salarymen don't have time to sit and order a cup of coffee," he says. So his shops are self-serve, with counters and just a few seats. The typical customer gulps down his $1 cup, pays and leaves in just 10 minutes.

Toriba has found a perky new market abroad: He has opened six Doutor shops in Seoul for workaholic Korean businessmen.—**Hiroko Katayama**

Tom Read

Doutor Coffee's Hiromichi Toriba
Coffee to go-go.

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The Forbes Wall Street Review

By Eric S. Hardy

The stock market collapse continued over the two weeks to Aug. 23, with a 10% fall in the Dow coming on top of a 5.5% fall for the previous two weeks (the first weeks after Iraq's invasion of Kuwait).

Yet, by many historical measures (including price/earnings ratios, dividend yields and price/book ratios), the market is still expensive. Since July 26, the Wilshire 5000's P/E multiple (against trailing 12-month earnings) has sagged only to 14 from 16.

For most of the past decade, smaller companies fared worse than blue chips, and many analysts (and FORBES) have recently argued that the time was ripe for a rebound in small stocks. But the current market crash is hurting them the most. The Nasdaq index is down 19% over the last month. Daily Nasdaq volume, meanwhile, has averaged 136 million shares and hit a high for the year of 203 million on Aug. 3. This may dispel the notion that lack of liquidity is behind Nasdaq's weakness.

Gold stocks have survived this rout. But Marc D. Cohen of Kidder, Peabody argues that gold has been surprisingly weak, given the boost you would expect it to get from a weakening dollar and expectations of oil-fed inflation. His conclusion is that underlying pressures are bearish for gold and that gold will retrench if there is any alleviation of the Middle Eastern hostilities.

The Best Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
American Barrick Resources	23	14%	68	6,299	1.8
Amax Gold	19¼	12	57	360	2.0
Placer Dome	18¾	10	40	10,141	2.2
Echo Bay Mines	14⅝	9	NM	5,236	1.6
Northrop	16⅜	9	7	1,521	1.1

The Worst Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
USAir Group	14¼	–30%	NM	2,894	1.6
Goulds Pumps	17⅛	–30	12	4,465	1.3
Boise Cascade	26½	–30	7	3,316	2.4
Metro Mobile CTS	10¾	–30	NM	62	0.5
Neutrogena	14¼	–29	17	813	0.8

Closeup on the Market

Index or investment	Price	2-week change
Wilshire index 6,000 stocks, capitalization weighted	2,911.71	–9.8%
Wilshire index 6,000 stocks, equal weighted	18.25	–9.6
Dow Jones industrials 30 stocks, divisor-adjusted price average	2,483.42	–10.0
S&P 500 Capitalization weighted cross section, major stocks	307.06	–9.7
NYSE Capitalization weighted, all listed common stocks	168.88	–9.3
Amex Capitalization weighted total return: stocks, warrants	315.85	–7.5
Nasdaq Capitalization weighted, all issues except warrants	360.22	–12.8
Amex international market index Capitalization weighted, 50 largest ADRs	287.40	–5.3

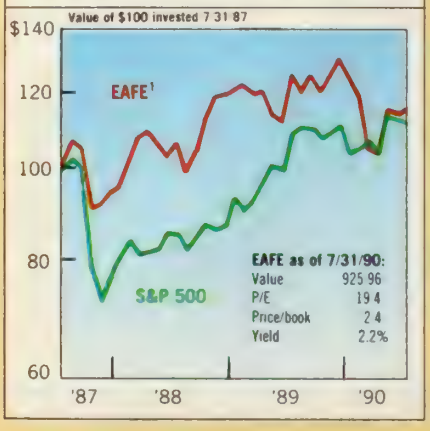
Index or investment	Price or rate	2-week change
Europe, Australia, New Zealand and Far East[4] (EAFE) a dollar denominated capitalization weighted index	783.60	–7.8%
Institutional[5] Approximately 200 stocks with high institutional ownership	94.46	–9.1
Individual[5] Approximately 200 stocks with low institutional ownership	88.66	–7.8
Russell 2000 index 2000 stocks with small market values, capitalization weighted	132.92	–12.9
Gold[6] (composite quote of 6 major dealers)	$411.80	7.3
Yen[6] (per $U.S.)	146.25	–2.3
Commodity index[6] (CRB futures index, 1967=100)	243.89	3.5
Oil[6] (W Texas Intermediate)	$31.95	24.6
T bills[6] (90 days)	7.52%	12 basis points[7]
Broker loan rate[6]	9.25%	unchanged

Note: All data for periods ending 8/23/90. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. Stocks listed above have market capitalizations of $500 million or more. [1]Capitalization weighted, prepared by Wilshire Associates, Santa Monica, Calif. [2]Average daily volume over a 2-week period. [3]Average daily volume over the last 2 weeks, divided by the average daily volume over the preceding 3 months. [4]Morgan Stanley Capital International Perspective. [5]For period ending 8/24/90. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. [6]Knight-Ridder Financial Information. [7]A basis point is equal to one-hundredth of a percentage point. NM: Not meaningful.

World Markets Review

By Gustavo Lombo

Foreign vs. U.S. markets



Developed markets

Market	Total return[2] 3 months	12 months	P/E
UK	27%	15%	11
Sweden	25	18	14
Switzerland	21	18	14
Australia	19	7	13
Austria	19	129	59
France	1	26	12
Findland	4	–21	14
Japan	8	–25	40
US	8	6	16
Belgium	9	18	11

Emerging markets

Region	Total return[2] 3 months	12 months	P/E
Latin America	12%	4%	NA
Asia	–34	– 27	NA

Country	Total return[2] 3 months	12 months	P/E
Greece	138%	424%	32
Turkey	42	769	25
Venezuela	28	109	11
Taiwan/China	–50	–44	38
Philippines	–16	–1	18
Korea	–14	–19	22

If it's any consolation to investors in the U.S. market, which fell 15% in the four weeks to Aug. 23, foreign markets are suffering Iraq fever, too. The Japanese Nikkei index hit a recent 23,737, down 39% from this year's high of 38,713 in early January. Caution: Even at today's lower prices, Japanese stocks are overpriced with respect to world markets, in the view of John Templeton, the Bahamas-based money manager.

The recent turmoil on the world's stock exchanges does, however, serve to point up the value of overseas investing to U.S. investors. An international portfolio provides diversification not only among markets but among currencies. Thus, for the three months ended July 31, the cutoff date for most of the tabulations on this page, a strong pound brought the U.S. return on U.K. stocks to 27%, even though British investors saw a gain of only 12%. Since the end of July, U.K. stocks have retraced some of these gains: They're off 10% locally and 6% to U.S. investors.

Who's Hot

Company/country	Business	Price	3-month price change	P/E
Nippon Light Metal/Japan	metals	8½	73%	45
Fitch Lovell/UK	consumer prods	5¼	65	13
Cycle & Carriage/Singapore	automotive	2¾	62	17
Svenska Handelsbank/Sweden	banking	24⅝	58	10
DYNO/Norway	chemicals	27⅜	57	13

Who's Not

Company/country	Business	Price	3-month price change	P/E
Jones David/Australia	merchandising	5	–35%	4
Michelin B/France	ind components	17½	–28	4
Philips/Netherlands	appliances	15¼	–25	7
Magneti Marelli/Italy	elec & electron	1¼	–24	16
Citroen Hispania/Spain	automotive	9¼	–24	4

Cheap Foreign Stocks

Company/country	Business	Price	Earnings	P/E
Bayer/Germany	chemicals	178⅜	$23.26	8
Thyssen/Germany	metals	182⅝	22.00	8
Cie Generale Elec/France	elec & electron	118¼	9.02	13
Banca Commerciale/Italy	banking	5⅛	0.35	15
National Westminster Bk/UK	banking	6	0.37	16

High-Yielding Foreign Stocks

Company/country	Business	Price	Yield	P/E
Gen Property Trust/Australia	real estate	2¼	9.2 %	11
Natl Australia Bk/Australia	banking	5¼	9.1	8
EBES/Belgium	utility	126¼	8.7	10
Elders Res/New Zealand	paper prods	1⅛	7.8	10
Hoechst/Germany	chemicals	169	7.5	7

Note: Data for period ending 7/31/90. Selected stocks have a market capitalization of at least $300 million. [1]EAFE is a price return index of European, Australian, New Zealand and Far Eastern stocks converted into U.S. dollars. [2]Performance numbers reflect both local price change and currency fluctuation. Dividends are reinvested after subtracting foreign withholding tax. NA: Not applicable. Principal source: Morgan Stanley Capital International Perspective. Emerging markets data provided by International Finance Corporation ending 6/30/90.

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BARABAN J 4
BOYLE S 8
CARLSON J 6
FISCUS J 10
HOAG K 3
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Stuck in a second-rate load fund? You may be able to salvage from it a free ticket into a much better load fund.

Freeloading

By Michael Fritz

A MARKETING gimmick, common among purveyors of everything from spreadsheet software to long-distance service, goes like this: Bring us the unused portion of a competitor's product, or evidence that you used to be loyal to another brand, and we'll give you a discount on our brand. That gimmick is now being used by certain load funds, and it opens interesting possibilities for investors. The deal is this: You can get into certain load funds (those charging a sales commission) without paying the load, provided you can show you are investing money withdrawn from another load fund.

For self-sufficient investors, of course, this is no big deal. It seldom makes sense for investors who make their own decisions to pay a sales commission in the first place when there are so many excellently run no-load funds to choose from. Still, some people prefer to get a broker's advice before buying a fund, and for them the deal can be attractive.

Among the fund families offering the load freebie are AMEV, American Capital, Fidelity's Plymouth group, Franklin, SunAmerica and Voyageur. The list is sure to grow: Prudential-Bache has sought the Securities & Exchange Commission's permission to offer the load waiver, and IDS is looking at the option.

St. Paul, Minn.-based AMEV Investors, which manages $1 billion, has been offering its Free and Simple Transfer program for three years. "It's a goodwill measure that can be offered at very little cost," says Dean Kopperud, AMEV's director of sales. "If a broker has a client with another fund that isn't providing the level of performance or services they want, they can transfer to us without a sales charge." Though rules vary, most participating companies require proof of redemption from an existing load fund within 15 to 60 days before the initial investment in the new fund. Using the redemption check to open the new fund account or providing a copy of the redemption confirmation slip is usually proof enough.

What's in it for the broker or financial planner? Why should he move a customer into a new fund if he will get no commission? In most cases the waiver of sales charges is a defensive measure. This customer is unhappy with the performance of a fund the broker told him to buy and is loath to pay another sales commission to move into another fund that might or might not perform better. Without a free transfer, he might just pack up and go to another broker.

Also, most load funds offering free transfers charge annual 12b-1 fees of 0.2% to 0.5%, of which about half goes to the broker to reward him for keeping customers in the fund. As with lump-sum sales commissions, so, too, with sales costs buried in annual 12b-1 charges: Self-sufficient investors avoid them, but customers of brokers and financial planners inevitably end up paying something. Then the objective for the investor is to get by with costs as small as possible. The table *(p. 231, top)* shows some of the better-performing load funds that waive loads and that have fairly low expense ratios.

John Segal

Some fund houses, including SunAmerica and American Capital, pay finders' fees from their own pockets of 0.2% to 0.5% of the transfer. At least one fund manager, Heartland Advisors in Milwaukee, rewards such "friendly brokers" by directing commissions on trades for the fund portfolio to the individual broker's name.

AMEV expects to draw $15 million in assets this year by waiving sales charges. The bulk of that money is going into two stock funds that normally carry 4.75% sales loads: the $159 million AMEV Capital Fund and the $256 million AMEV Growth Fund. Both funds

have beaten the S&P 500 over the last three market cycles (since November 1980), earning an average 15.2% annually. They also have below-average operating expenses, despite 12b-1 fees of 0.25% a year.

For investors seeking a more aggressive fund, SunAmerica's $40 million Equity Growth Fund, run by Harvey Eisen (FORBES, *June 25*), has beaten the market by nearly 3 points a year over the last three years. The fund normally carries a 4.75% front load; its 1.8% expense ratio is slightly above the stock fund average.

AMEV and SunAmerica offer their load freebies continuously. Other fund sponsors use the offers sporadically, like supermarket promotions. Fidelity's Plymouth load group is running a six-month load-waiver program that ends Oct. 26.

Unlike cents-off coupons at the supermarket, these no-load deals are offered very discreetly, mostly to customers who complain. If you don't ask for better treatment, you could end up paying a commission to move from one broker-marketed fund to another. Also note: Some brokerage houses impose transaction charges on load-free fund transfers. Minneapolis-based Dain Bosworth, for instance, charges $25. ■

Trade in your used fund

You can get into these better-performing load funds without paying a nickel in sales commissions. All you have to do is prove that you are investing money withdrawn from a rival load fund.

Fund	Type	Average annual return[1]	Maximum sales charge	Annual expenses per $100
American Capital Comstock	stock	15.5%	8.50%	$0.69
American Capital Pace	stock	16.3	5.75	0.72
American Capital Equity Income	balanced	15.5	5.75	0.83
AMEV Capital	stock	15.2	4.75	1.16
AMEV Growth	stock	15.2	4.75	1.01
AMEV US Govt Securities	taxable bond	11.4[2]	4.50	0.83
Franklin Growth[3]	stock	15.3	4.00	0.72

[1]11/30/80 to 6/30/90. [2]6/30/80 to 6/30/90. [3]Applies to back-end funds only.

The leverage binge of the 1980s creates opportunity in the 1990s for vultures like Daniel Long of the Greenspring Fund.

Picking up the pieces

By Michael Fritz

THE END OF THE 1980s Era of Leverage is bad news for certain investors, such as early buyers of junk bonds. But it is good news for experts in distressed securities—defaulted bonds, nonperforming bank loans and shares of busted real estate trusts and other companies. One of those experts is Daniel Long III, 48, founder (in 1983) and lead manager of the Greenspring Fund.

Greenspring and other funds like it *(see table, left)* don't do well in bull markets. They don't favor growth stocks, and they don't particularly like takeover stocks, although they may be very interested in the junk bond remnants of yesterday's leveraged buyouts. But when the market falls apart, as it has in the past month, they shine. Since the end of June, Greenspring has fallen 4.4%, only a third as much as the market overall.

The workout business has come a long way since Long got his first taste of it not long after founding Corbyn Associates, his Baltimore money management firm, in 1973. In the old days the players tended to be railroad experts, since defaulted rail bonds provided most of the grist for their mills. Fortunes were amassed by such investors as Carl Lindner, Henry Crown and Leon Levy by skillfully working the sleepy creditor committees of bankrupt railroads. Now, there is a lot more to work with than troubled railroads. Some $34 billion of junk bonds are in default, in indus-

Workout plays

Funds that buy securities of companies in financial distress or in reorganization often do poorly in bull markets but more than make up the distance in bear markets. Most of these have looked good recently.

	Assets ($mil)	Expense ratio	Cycle return (annualized)[1]	Recent return[2]
Equity Strategies[3]	$69	1.3%	12.0%	–1.2%
First Eagle of America[4]	90	2.0	NA	–8.8
Greenspring	24	1.3	7.6	–4.4
Merrill Lynch Phoenix A[5]	258	1.3	8.5	–13.9
Mutual Beacon	457	0.7	9.5	–6.9
Mutual Qualified[3]	1,340	0.7	7.9	–7.8
Mutual Shares[3]	3,110	0.7	8.3	–8.1
Standard & Poor's 500			6.6	–12.5

[1]8/31/87 to 6/30/90. [2]6/30/90 to 8/24/90 (not annualized). [3]Closed to new investors. [4]Imposes 1% redemption fee. [5]Imposes 6% sales load. NA: Not available.

Manuello Paganelli Woodhn Camp

Corbyn Associates' Daniel Long, Charles Carlson and Michael Godack
Looking for lingering-negative-perception plays.

tries ranging from newspaper publishing to retailing. And then there are the shares of companies verging on or emerging from bankruptcy.

But there are also more players for Long to compete with. The Mutual Series group of funds, run by Max Heine, who died in 1988, has almost $5 billion in assets. Hundreds of millions of dollars are pouring into private funds sponsored by everyone from Goldman, Sachs and Chicago investors Sam Zell and David Schulte to Roy Disney. "Most banks and insurance companies have their own workout departments today, so companies aren't trashed [in bankruptcy court] as quickly," says Long, whose firm also manages $140 million in private and institutional accounts. Creditor committees have also honed their negotiating skills and proceed more efficiently, shrinking the trading spreads for distressed securities.

With only $24 million in assets, Greenspring doesn't have the financial wherewithal to play a role on creditor committees. Long's alternative is to do his credit analysis on distressed issues and then wait for a scrappy workout player who can prod the company into making good on the bonds. "We'll watch who is fooling with the equity or the junior bonds," explains Long. "If they're sophisticated, we'll jump into a small senior bond issue."

Long's portfolio has a little old-time flavor to it. Among the holdings are positions in Erie Lackawanna and Reading, cash and real estate holding remnants of operating railroad companies long since absorbed into the Conrail system. A more recent distressed holding is Public Service Co. of New Hampshire's 13¾s of 1996 bonds. Long paid an average $860 per $1,000 face value bond soon after the utility filed for protection from creditors in January 1988. The bonds are due to be paid off this month with accrued interest, netting Greenspring a 75% return.

When attractive bankruptcy issues are hard to find, Long hunts asset plays suffering from "lingering negative perceptions," such as farm tractor and diesel engine maker Varity Corp. It took three restructurings in the early and mid-1980s to pare costs and cut debt, but Chairman Victor Rice has finally placed Varity on solid footing, says Long.

Long recently bought Key Production, a corporate successor to several oil and gas limited partnerships run by Apache Corp. The business of tax shelters has plenty of negative perceptions, mostly well deserved, but the market has been nonetheless undervaluing Key's assets, which include the equivalent of one barrel of oil reserves per share.

Long has never bought a new-issue junk bond, but is willing to take a piece of a fallen angel à la Public Service Co. of New Hampshire. "We see more potential, but we're waiting for a number of situations to ripen," says Long. Two that have ripened are ailing Gulf States Utilities and First City Bancorporation of Texas. Gulf States' $4.40 and $3.85 preferred issues are 3½ years in arrears on dividend payments. Long and his associates began buying both issues in mid-July after Gulf settled an onerous lawsuit with another utility. With the suit behind it, associate Charles Carlson figures Gulf will be able to clear up the arrearages by next fall, netting the fund an 18% return.

First City's stock has been battered by fears about its huge portfolio of LBO loans. Long and his partners began buying the $5.50 preferred in July at around 46, betting First City will pay off the preferred at the $53 call price by next April, in order to avoid a costly exchange provision. If they are right, the fund will net a 25% annualized return. ■

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CORPORATE REPORT Updates

A SPECIAL FORBES ADVERTISING SERVICE FOR INVESTORS AND THE FINANCIAL COMMUNITY

N New York Stock Exchange **A** American Stock Exchange **O** Over-the-Counter **P** Pacific Stock Exchange

F.P. SPECIAL ASSETS LIMITED — O

ANNOUNCEMENT OF INTERIM RESULTS

HONG KONG, July 27, 1990 - F.P. Special Assets Limited (FPSAL), (OTC: Pink Sheets), the Hong Kong based and public listed company which invests as a pro-active principal in undervalued properties and companies in the Asia/Pacific Region, announced an increase of 244 percent in consolidated earnings after taxation for the six months ended June 30, 1990 of US$5.602 million compared with US$1.629 million for the first half of 1989. Fully diluted earnings per American Depositary Receipt ("ADR") increased by 230 percent to US$2.51 compared with US$0.76 cents for the first half of last year.

Total assets during the same period decreased by 1 percent to US$73.347 million from US$73.536 million while net assets decreased by 4 percent to US$43.952 million compared with US$45.670 million as at June 30, 1989.

Net asset value per ADR (undiluted) for the interim period decreased by 9 percent (adjusted for dividend payments) to US$22.99 compared with US$25.88 for the corresponding period last year.

Mr. Robert L. Meyer, Managing Director of FPSAL, commented on FPSAL's record earnings: "The first half of 1990 was extremely significant in enabling FPSAL to divest itself of its share position in our long term investment in Tian Teck Land Limited, realizing a large profit. We have used this opportunity to provide against certain assets held such as the City Resources shares and First Pacific Networks, Inc., resulting in some diminution in our net asset value per share. FPSAL has now sold out of all of our earliest acquired assets and we look forward to further realizations of profit in the second half of the year."

FPSAL also announced proposals to reorganize the share capital of FPSAL by a ten-for-one share split in order to increase the trading liquidity in FPSAL shares. Additionally, the Company is proposing to its shareholders and warrantholders an odd lot elimination scheme through share top-ups or buy outs to consolidate minor shareholdings in FPSAL.

FPSAL is a "Wall Street style" merchant bank specializing in the acquisition and sale of undervalued assets and special situations in real estate and public and privately held companies. To date, the Company has completed deals affecting assets in Hong Kong, the Philippines, Taiwan, Australia, Singapore, Thailand, Indonesia, China, Canada and California, USA. FPSAL employs corporate finance, securities and real estate investment and management expertise and techniques to create shareholder value and increase shareholders' net asset value on a per share basis. The Company has increased its consolidated net asset value per share by 411 percent since its inception in December, 1985.

FPSAL is associated with Asian based and publicly listed First Pacific Company Limited, a US$1.7 billion investment and management company with operations in 24 countries worldwide.

American Depositary Receipts (ADR's) for FPSAL commenced trading Over-the-Counter (Pink Sheets) in September, 1987 on the basis of 1 ADR per 50 ordinary shares of FPSAL. Shearson Lehman Hutton Inc. (contact: Thomas Finnerty (212) 640-9300 or (800) 221-5230) and Wertheim Schroder & Company Incorporated (contact: Terrence C. Shea (212) 492-6382) are market makers in the ADR's of FPSAL.

SUMMARY OF INTERIM RESULTS FOR THE HALF YEAR ENDED JUNE 30, 1990

	Half year ending June 30, 1990 US$'000	Half year ending June 30, 1989 US$'000	Percentage Change
Total income	**14,966**	5,813	+157%
Profit after tax	**5,602**	1,629	+244%
Fully diluted earnings per ADR	**US$2.51**	US$0.76	+230%

(Contact: Mae S. Wang, Assistant Vice President, F.P. Special Assets Limited, 24th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong. Phone (852) 842-4274 Fax: (852) 845-5517 Telex: 74216 FPFHK)

SAVANNA RESOURCES LTD — ALB

Company Update

CALGARY, ALBERTA, September 1—Savanna Resources Ltd., (Alberta Stock Exchange Symbol: SV), reports significant progress in joint venture negotiations on two of its Oregon and California mining properties.

The Company expects a joint venture agreement will be signed shortly giving Cominco American Resources Incorporated the right to earn an undivided interest in Savanna's Turner Albright gold, zinc, copper, and cobalt deposit located in southwestern Oregon by completing an exploration program and feasibility study on the property. Besides having a drill-indicated gross ore value of some $412 million, this polymetallic deposit is one of the few properties in North America with drill-indicated reserves cobalt. Data from 81,000 feet of diamond drilling has established ore reserves estimated at 3.6 million tons containing, in addition to cobalt, 400,000 ounces gold, 1,600,000 ounces silver, 100,000,000 pounds copper and 240,000,000 pounds zinc.

Discussions are also underway with Cyprus Metals Exploration Corporation regarding a joint venture agreement giving them the right to earn an undivided interest in Savanna's Santa Rosa property near Lone Pine, California, by completing an exploration and development program on the property. The terms and conditions of the joint ve agreement are expected to be completed during Septe 1990. The Santa Rosa mine, from which recorded produ in excess of 80,000 tons grading 11.6 oz/ton silver, 1 lead and 6.2% zinc was extracted prior to 1973, significant unexplored bedded zinc mineralization evide the underground workings and drill holes. mineralization occurs over a stratigraphic interval least 650 feet, providing significant tonnage potentia

Other Savanna holdings include a former c producer in California and leases in the Courageous gold belt of the Northwest Territories.

COMPANY DATA

Incorporated: March 26, 1957
Shares Authorized: Unlimited
Shares Outstanding: 28,599,601
Estimated Float: 18,000,000
Recent Price: C$0.50
1989 Trading Price: C$0.28-C$1.10
Shares Traded: Alberta Stock Exchange (SV)

(Contact: John M. Alston, President, Savanna Reso Ltd. 540 Fifth Avenue, S.W., Suite 810, Calgary, Alt Canada T2P 0M2. Phone (403) 269-5369 or Pat He Phone (604) 732-0990.)

GRC INTERNATIONAL

Announces Win of Navy Contract

VIENNA, VA., Aug. 6—GRC International (NYSE: announced today that an industry team which include subsidiaries, SWL, Inc. and General Research Corpor (GRC) has been awarded a contract by the U.S. N Space and Naval Warfare Systems Command (SPAV which is expected to cover a five-year period and resu total funding of up to $120 million.

The industry team, lead by SWL, Inc., includes Atlanta Research Corporation, Ball Aerospace (Ball Sys Engineering Division), DCS Corporation, and Incorporated.

Under the contract, systems engineering and acquis support will be provided on several SPAWAR activities w the Space and Sensors Systems Program Directorate (P The contract is for an initial one-year $24 million effort four additional option years of up to $24 million each

For the GRC International companies, this con largely replaces contracts that are expiring so that f levels of funding are expected to be similar to the past actual levels of contract funding will depend on an Navy budgeting decisions.

(Contact: Philip R. Pietras, Acting CFO, GRC I national, 1900 Gallows Rd., Vienna, VA 22182. Phone (506-5060.)

For Advertising information please call Sarah Madison (505) 275-1282 or Virginia Carroll (212) 620-2339.

MONEY & INVESTMENTS

Tempted by bank stocks at these low levels? Buy their deposit notes instead.

BANK DEBT PLAY

By Ben Weberman

Commercial banks are in a mess of trouble. Earnings are strained—or nonexistent in some cases. Capital is short.

Prices of the bonds and stocks of banks and their holding companies have plunged. In general, the bank security market is behaving as if many investment-grade issues were in the junk category, says Ann Robinson, bank bond analyst with Donaldson, Lufkin & Jenrette. Institutional investors just want to be out of this market and are dumping holdings or not buying more, other than a few highest-quality issues where there's little or no question of undiscovered loan-loss exposure. Says Robinson: "The best values in this market are bank deposit notes, because they are insured up to $100,000 by the Federal Deposit Insurance Corp. and they have relatively high yields."

In the recent bank stock decline, Citicorp sold down 50% from its 12-month high, Chase Manhattan 60%. And so on.

If you're tempted to buy some of these stocks on the grounds that they're cheap and too important for the government to let them sink, I have a suggestion: Buy their debt instead.

Yields on bank debt have risen—sharply in some cases. And there are some sound investment opportunities for the individual investor—particularly in bank deposit notes—that will bring you up to over 100 basis points more than on U.S. Treasury securities.

But don't just buy the category. Search out bank deposit notes issued by the banks themselves, not those bonds issued by bank holding companies. Most of the notes have maturities of up to seven years. A very small proportion of them are not backed by the FDIC, so be sure to check this feature before placing a buy order. They are available off the bond desks of most major securities dealers.

Bank-level deposit notes, as well as senior notes, represent good investment value because, for all their highly publicized problems, commercial banks are hardly on the verge of a savings-and-loan-type crisis. Loan losses are up, yes, but so are loan-loss reserves. Bank margins are being squeezed and will continue to be so, but it's unlikely that they'll be squeezed to extinction.

Many commercial banks badly need capital but can't afford to sell common stock when their existing shares sell at big discounts to book value. These discounted stock prices are the most serious obstacle facing capital-poor banks today, according to Federal Reserve Board governor John LaWare, a former banker. "The cost of capital is almost prohibitive for many," LaWare says.

Selling notes, while not cheap in this market, is less dilutive for the banks than selling equity. So banks in need of capital are preparing to raise funds through the sale of debt. Joseph Foley, bank and finance trader at Prudential-Bache Capital Markets, says that while holding company paper abounds, there's a scarcity of good-quality bank-level notes right now, but that this shortage will be corrected as new issues come to market.

J.P. Morgan's three-year deposit notes, which are considered top-flight in quality, yield 8.65%, or about 40 basis points over a Treasury with a comparable maturity. First Chicago Bank's three-year notes yield 9.05%, or 80 basis points over Treasurys that have the same maturity.

Fleet/Norstar, a survivor bank in New England with substantial representation in upstate New York yields 9.25%, or 100 basis points more than Treasurys for its three-year deposit notes.

High-return and low-risk bank deposit notes for Chase Manhattan Bank yield 9.35%, or 110 basis points more than Treasurys in the three-year maturity sector. Or consider Chemical Bank's three-year notes, which yield 9.75% or 150 basis points more than the equivalent Treasury maturity.

Since the note interest is subject to state income tax—unlike Treasurys—the spread over Treasurys narrows in high-tax states like New York and California. But not all states are at those high levels. And even with state tax, the bank notes are an attractive alternative to Treasurys, given the FDIC protection. They're particularly good for IRAs and other tax-deferred investments.

Ignore subordinated bank debt and most bank holding company paper. When First RepublicBank Corp., based in Dallas, failed in 1988, the bank's stock became virtually worthless—and the holding company debentures lost most of their value.

To be doubly safe, stick to deposit notes or senior notes of banks that have low exposure to risky commercial real estate and less-developed-country debt. In addition, avoid banks with too much exposure in a single area or community and large exposure to leveraged buyout financing. Banks with good capital ratios and strong coverage in loan-loss reserves are also good bets. Among these are Republic New York Corp. and J.P. Morgan. ■

Ben Weberman is a contributing editor of FORBES *magazine.*

Whatever happens in the current Persian Gulf situation, the world is not facing a major, protracted increase in oil prices.

BEWARE OF FALSE PARALLELS

By David Dreman

No more than anyone else can I predict the outcome of the situation in the Persian Gulf, but this much I can say with confidence: Beware of too facile parallels with past events. You only have to go back to the crash of 1987 to see how misleading such parallels can be. After the crash—in which the market dropped 80% more in a single day than it did in all of 1929—the majority of experts predicted that stocks would fall much further and that a severe recession, if not a depression, was imminent. After all, wasn't this what happened in 1929?

For months the *New York Times* and other influential dailies ran charts showing the eerie similarities between the postcrash market action in 1987 and that of 1929. The charts implied that this market, like the one of the early Thirties, would free-fall to a fraction of its value. (FORBES was one of the few magazines to resist joining this hysterical chorus.) In my own column I pointed out that the underlying fundamentals were entirely different in 1987 than in 1929 and predicted the stock market would rebound reasonably quickly *(see my Dec. 28, 1987 column)*. Most investors, going with the crowd, missed out on the bargain prices prevailing in late 1987 and early 1988.

This brings us to today's market pundits who compare the current oil crisis with those of 1973-74 and 1979-80. Back in 1980, for example, oil experts stated that crude would reach $100 a barrel by the end of the decade at the latest. Then, too, leading dailies ran front-page series for months on how higher oil prices would permanently damage the economy. Some of the statistics conjured up to back the predictions were terrifying. One showed that at the then-current price of oil, almost the entire capital of the Western world would flow into the coffers of OPEC members. Another demonstrated that Saudi Arabia would accumulate more capital in six or seven years than the value of all stocks on the NYSE.

What happened? By the late 1980s oil had dropped to as low as $12 a barrel. Fear sells newspapers and keeps people glued to the tube, but fear does not make money in the stock market.

Let's examine the facts: Oil prices, rather than tripling as they did in the Seventies, are up only about 30% in the current crisis. Why? First, this time around all the OPEC members are not banded together to increase prices. Instead, they have mostly condemned the Iraqi aggression and feel threatened by it. They have indicated they would make up the Iraq-Kuwait difference to keep prices from rising further. I think they will keep their word, as much out of greed as out of dedication to world peace and order. Second, to my memory, such unanimity among the major powers has not occurred in well over a century.

If fighting starts or if there are temporary reverses to the West, oil prices could shoot up, but only for a brief period. With the 50-year-plus supply the Saudis and some of the other producers have and their major need for hard cash now, prices aren't likely to move to a much higher plateau permanently. The bottom line then is that the chances of prices stabilizing or going down from here are better than the chances of their moving higher.

The panic that has gripped many investors has created fine buying opportunities. If you are the nervous type, better wait for the market to calm down before committing further funds, but here are a number of badly battered stocks that present good value.

The airlines have been knocked down sharply by fear of rising oil prices coupled with lower revenue growth brought on by the business slowdown. Because a number of major carriers are badly overextended, the stronger companies should be able to buy profitable routes at reasonable prices, enabling them to post record earnings when the economy turns up. Two I would look at:

AMR Corp. (46) owns American Airlines, the largest U.S. carrier. AMR should be one of the industry's most profitable survivors. The stock trades at a P/E of 10.

Delta (56) is the third-largest domestic carrier and, along with American, is aggressively expanding its Far East Asia and European routes. The stock trades at a P/E of 10 and yields 2.2%.

Compaq Computer (48) has been knocked down sharply. Even with a slowing business cycle, earnings should be up 15% this year. Compaq trades at a P/E of 11.

Hewlett-Packard (34) also has been badly battered. Earnings should begin to pick up in the final quarter of fiscal 1990 and show good improvement in fiscal 1991 (ending Oct. 31). The stock trades at 11 times depressed earnings and yields 1.2%.

Lotus Development (18) is one of the three largest makers of personal computer software. The stock has nose-dived almost 60% recently, as earnings are likely to come in below analysts' estimates. Longer term the outlook continues to be good. The stock trades at a price/earnings multiple of 8. ■

David Dreman is managing director of Dreman Value Management, L.P., Investment Counsel, New York, and author of The New Contrarian Investment Strategy.

In crises like the one in the Persian Gulf there are six equity groups that usually rise faster when the stock market recovers.

TRADING IN SHOCKED MARKETS

By Ann C. Brown

Over the past 14 years I have worried in these columns with you about hot wars, cold war, police actions, blockades, embargoes, hostage ordeals, dictators, coups, assassinations, revolutions, inflations, recessions and other sad-but-truisms of political/economic life. While no two crises are ever exactly the same, there are similarities in the responses to them by the financial markets that deserve mention in times like the present, when there is increased stock-price volatility and heightened investor uncertainty.

The stock market's initial reaction to any upheaval that directly or indirectly affects our fundamental national interest is a selloff. These downturns seldom exceed two quarters—even in the case of World War II—and are followed by occasionally sharp rebounds (100%-plus on the DJI from mid-1942 to 1945) as government, business and the public get a better idea of what they can expect and what is expected of them. Today's confrontations between nations, because of the devastation modern weaponry can wreak, have tended to be more limited in scope and more psychological in nature. There have been fewer massive material buildups in preparation for war than in the past and, as a result, less direct economic stimulus.

This is not to say, however, that the current mobilization and deployment of troops won't help boost the American economy. It will—probably enough to keep the U.S. out of a full-blown recession, even though recessionary conditions will continue to adversely affect many industries as the series of rolling readjustments rolls on.

Whenever a sharp decline in stock prices takes place for fear of war or for whatever reasons, I look first at six groups of equities to seek out potential buying opportunities. Group one is what I call "necessity stocks"—foods, drugs and tobaccos. Attractive candidates in this category currently are *American Brands* (63), *Sara Lee* (25) and *Eli Lilly* (69).

Group two includes those stocks best described as "overly battered big caps"—stocks that are the leaders in their respective industries and that can be expected to benefit from foreign and domestic institutional buying once investor sentiment changes from negative to positive. IBM (100), AT&T (31), *Boeing* (46) and *General Electric* (61) are high on many shopping lists.

A third group of stocks that I feel always bears close watching in scare markets are those equities whose prices have somehow managed to rise—or at least have held on and fallen less than the prices of other equities. Some of these stocks are above-average performers because they are in businesses/services that should prosper because of the nature of the trouble at hand.

Presently included in this group are the oils (particularly *Atlantic Richfield* and *British Petroleum*), selected oil exploration/development companies, such as *Schlumberger* and *Halliburton*, and petroleum alternative companies like *Ashland Coal*, *Mapco* and *Sonat, Inc.* Considerable appreciation already has been realized in this group, and these and other oil-related stocks carry with them downside risk in the event of a prompt and peaceful resolution of the Mideast situation.

In addition to stocks whose prices reflect opportunities created by changing world conditions, I pay careful attention to relatively strong-performing equities of companies that would seemingly have little to gain from the latest turmoil. These issues have been known to go up faster than other securities when the market rallies, because they showed good support when the market was weak. Among the stocks fitting this description now are UNUM *Corp.* (48), *Church & Dwight* (17) and *H&R Block* (37).

A fourth group consists of those equities paying big dividends that are likely to be maintained. Since it is probable that the Federal Reserve will move to lower interest rates sometime within the next few weeks, these high-yielding stocks have excellent total return potential. Worth considering are *Koger Properties* (19), currently yielding 14.5%; *Chemical Banking Corp.* (21), with its 12.7% yield; and USF&G (21), whose present dividend return is 13.7%.

Stocks selling below their average annual price/earnings ratio have also been rewarding investments when the stock market is in an oversold condition. For example, *Ford Motor Co.* (34) is now selling at five times next year's estimated earnings and pays a generous dividend to boot. *Sotheby's* (10) also looks attractive for investors who can stand a high degree of uncertainty. And *L.A. Gear* (13) is tempting at five times estimated earnings.

The final group contains the high beta stocks—or stocks historically more volatile than the market in general. These issues are not for nervous or conservative investors because of their wide price swings. However, if you have cool and cash to spare, this could be the time to nibble at *King World* (18), *Tiffany* (35) and *Oracle Systems* (13). ■

Ann C. Brown is chief executive officer of the equity advisory and portfolio consulting firm of A.C. Brown & Associates.

Many dismiss the pessimistic views of an investment adviser who has beaten the market over the last decade. Why?

UNLOVED BEAR

By Mark Hulbert

There currently is an unsolved mystery in the investment newsletter arena. A number of investors refuse to listen to Charles Allmon, despite the fact that his *Growth Stock Outlook* has an excellent long-term record according to my *Hulbert Financial Digest* count. Magazines that interview or even quote him receive letters from readers, outraged that he is given any attention at all.

Allmon's alleged crime was turning bearish prematurely. Envisioning a drop in the DJI to as low as 1000, he started building up a large cash position in his model portfolio as early as 1986. That made him look pretty smart when the market crashed in 1987. But rather than jump in when the Dow was below 1800, he persevered in his bearishness and has resolutely maintained a cash position in excess of 80% during each of the last four years. He currently is 90% in cash, despite the market's being down nearly 20%.

Allmon became bearish because he believed few companies were undervalued according to his particular application of fundamental analysis to growth stocks. Allmon looks for stocks with strong earnings and revenue growth and whose prices are relatively low according to any of several fundamental criteria—such as price/earnings ratios, etc. While there were many companies with strong growth rates in the debt-happy late 1980s, fewer and fewer were fundamentally cheap.

Allmon's large cash position, therefore, was the natural consequence of his selling stocks as they became fully valued and finding no suitable replacements. Allmon has theorized that the DJI could fall back to its book value—which, he points out, is the level down to which the last three bear markets have fallen. The current book value of the Dow is about 1400.

To be sure, Allmon's bearishness was premature. Yet he remains one of the top long-term performers. He is in first place for risk-adjusted performance over the last decade, for example, and is one of just three among those I track in the *Hulbert Financial Digest* who have beaten the S&P 500's total return since 1980. And even over the period he was prematurely bearish, Allmon didn't lag the market by that much, thanks to the steady compounding of the T bill interest he earned each year. It would take a drop of only 15% or so from current levels, with the Dow at around 2500, to put Allmon ahead of the market for the period since his bearish turn.

Thus, while Allmon has been wrong, his "crime" hasn't been particularly outrageous. But even if lagging the market were a capital offense, it still couldn't explain why investors so strongly object to Allmon's views. He hardly has a monopoly on lagging the market, after all. And there are numerous other advisers whose views remain popular, despite their having lost money during the time Allmon merely didn't make as much as the market.

Take Al Frank, for example. I calculate that the model portfolio in his *Prudent Speculator* lost 26% since the end of 1986, in contrast to Allmon's 32% gain. Yet at the recent Investment Seminars Inc. conference in San Francisco, at which both Frank and Allmon spoke, no one complained to me about Frank the way they did about Allmon.

One hypothesis offered for Allmon's unpopularity is that he must have lost his touch. Years ago, goes this theory, he might have known how to beat the market, but not anymore. To me, this is investor myopia. Several advisers with excellent long-term records have lagged the market over the past few years, yet their views are not dismissed the way Allmon's are.

Furthermore, Allmon's ability to assess value remains strong. I calculate that a portfolio fully invested in those few stocks he has actually recommended over the past several years would have easily outperformed the average secondary stock. (So far in 1990, Allmon has added two stocks to his model portfolio, both o-t-c, Programming & Systems and the ADRs of Nestlé.)

The real explanation for Allmon's unpopularity, I'm convinced, is simply that he is so bearish. Most investors would rather hear positive, optimistic news than face Allmon's glowering pessimism. Even if wrong, the vision of the DJI at 4000 is so much more reassuring than at 1400. It is hard to love a bear.

Allmon's case confirms the truth of what several advisers over the years have conceded to me in private: From a business and public relations point of view, it is better to be bullish and wrong than bearish and right. Even if they turn out to be wrong, they explain, as long as they remain bullish, they will avoid ever becoming as unpopular as Allmon.

Needless to say, the fact that some of Allmon's unpopularity is undeserved doesn't mean that his bearishness will necessarily be vindicated. But it does mean that his views shouldn't be dismissed just because they are unpopular. Shooting the messenger is never a good policy, especially when the messenger has as good a long-term record as Charles Allmon. ■

Mark Hulbert is editor of the Alexandria, Va.-based Hulbert Financial Digest. *His newest book is* The Hulbert Guide to Financial Newsletters *(Probus Publishing).*

MONEY & INVESTMENTS

As long as we regard our crises as unrelated incidents, we will continue to be blindsided by unforeseen disasters.

INTERCONNECTED CRISES

By Ashby Bladen

Suddenly all of the problems that we Americans have been sweeping under the rug for a quarter of a century are becoming crises simultaneously. Yet we persist in regarding them as unconnected events. As long as we continue to regard the thrift crisis, the debt-propelled slump that was clearly developing this summer, and now the latest oil crisis as unrelated incidents—just a case of one damned thing going wrong after another—we will continue to be blindsided by additional unforeseen disasters.

Saddam Hussein is an outlaw of grotesque proportions. But there is no use blaming him for all that ails the economy. The fact is that our most serious troubles are all traceable to the national financial policies that inspired and supported the great American borrowing-and-spending spree of the last 30 years.

The original oil crisis 17 years ago was caused by the devaluation and floating of the dollar in 1971. The Arabs' losses on their dollar assets made them realize that continuing to sell a real asset—oil—for U.S. IOUs, whose real value was constantly declining, was a fool's game.

Ashby Bladen is a financial consultant and author of How to Cope with the Developing Financial Crisis.

We Americans are still in the grip of an illusion—that government policies encouraging excessive and inflationary borrowing and spending were as good economics as they were good politics. But our foreign creditors saw through that illusion two decades ago.

The borrowing-and-spending spree was originally touched off by the new economics of the Kennedy Administration, which promised to fine-tune away even mild recessions by a judicious combination of fiscal and monetary ease. That led Americans to believe that the risk of going bankrupt had been diminished, while the risk of inflation had obviously increased. Aided and abetted by the tax code, they abandoned the financial prudence of their parents and borrowed more and more heavily to buy real things, such as houses, as inflation hedges. And the resulting inflation led the Fed to impose the first credit crunch of 1966.

For the next 23 years business conditions were largely dictated by the Federal Reserve's stop-go policies. Each credit crunch caused a recession more severe than the one preceding it, but every time the Fed backed off, the inflationary borrowing and spending came back stronger than ever. After the Fed relaxed following the 1980-82 crunch, the rate of debt formation went through the roof.

Now something different and much more ominous is happening. This summer, even before Saddam's troops stole Kuwait, it was becoming obvious that the U.S. was sinking into a credit-contraction slump caused by the declining confidence of borrowers and lenders alike that outstanding debts can be repaid. The Fed cannot restore that confidence now any more than it could in the 1930s, when the financial writers invented the cliché that "you can't push on a string."

Of course, it is better to return to financial prudence late than never to return at all. But I am sorry to have to report that the damage has already been done. Far too many large employers have taken on more debt than they can carry, and will go bust unless the government bails them out.

Falling confidence resulting from excessive debts was the main cause of the Great Depression, too. The main difference between the early 1930s and the early 1990s is that the economists have finally convinced us that the government should bail out everybody whose failure would cause unemployment or financial losses for anybody else. Unless Saddam Hussein puts the debt-propelled slump on hold by starting a real shooting war, the Administration will find itself in a real bind. It will be able to prevent the slump from turning into another depression only by bailing everybody out for the account and risk of the taxpayers. The inflationary expectations that will arise from that will turn U.S. government obligations into the ultimate junk bonds. The Treasury will have to pay interest commensurate with the risk of degradation of principal.

And if it comes to a shooting war, the outlook is even worse. A country that persistently runs a big balance-of-payments deficit in peacetime, and whose government persistently runs a huge deficit in good times, is making essentially the same mistake as a corporation that hocks 95% of its boom-time cash flow for debt service. Neither has left any prudent margin for unexpected troubles.

The Fed relaxed its last credit crunch in 1982, and we have gone on trying to borrow and spend ourselves rich. Since then I have been warning that sooner or later our government's commitment to bailing everyone out of his financial troubles would cause a new peak of interest rates surpassing the 15¼% on long Treasury bonds in 1981. Now the dumping of an international military crisis on top of our domestic financial one suggests that the peak will come sooner rather than later. ■

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Edited by Thomas Jaffe

Full of bulls

Streetwalker has heard so much bearish sentiment from investors during this August's Saddam Hussein market that we started to wonder if there were any bulls left. If not, you can't ask for a much better signal that it's time to buy stocks.

Alas! The woods are still full of bulls. Market analyst Robert Ritter, of Ladenburg, Thalmann & Co., looked at the week ended Aug. 24; he was amazed that one poll he follows put the bulls at 33%, the bears at 48% (the rest are fence sitters). Says Ritter: "Negative sentiment is still too low to indicate a contrarian bottom." Before he'll make such a call, either the bears must number around 55%, or the bulls lower than 30%.

Building up the reserves

In the late-August week when oil prices spiked over the $30-a-barrel mark, the word in London was that an exploration team working for New York-based Amerada Hess had discovered another large crude oilfield in the North Sea near the Shetland Islands. Production potential: 200,000 barrels a day. Hess, one of the few remaining independents with substantial oil and gas reserves, remained mum. At its current stock price, it has no reason to trumpet its undervalued and growing reserves.

In the North Sea, Amerada (1989 revenues, $5.9 billion) now has nearly 1 billion barrels of proven oil and oil-equivalent natural gas reserves. It has another 500 million barrels in the continental U.S., Canada and the Gulf of Mexico. According to estimates by Philip Lambert of the British investment bank Kleinwort Benson, Amerada's breakup value, assuming an oil price of $20 a barrel, is $98 a share. Amerada's current market value: just over $50 a share. For each $1 rise in the oil price above $20, 1990 revenues will rise by $36 million.

Leon Hess, now 76, formed the company in 1969 by merging his family's Hess Oil & Chemical Corp. with Amerada Petroleum. During the 1980s, while many of his larger competitors were betting on oil below $20 a barrel at least through the year 2000, Leon Hess gambled on a far quicker rise in the price. In the last two years Amerada spent $2.7 billion, or 93% of its total capital expenditures, on exploration and related operations. Its North Sea reserves bear an average acquisition cost of around $3 a barrel.

For any of the major American oil companies looking to build up reserves in the North Sea, Amerada must look increasingly tempting. Amerada would make an especially good fit for U.S. majors like Texaco, Chevron and Atlantic Richfield, all of which have relatively small holdings in the North Sea.

Would public shareholders object? Probably not. The stock didn't do much during the 1980s, and Leon Hess has preferred making heavy investments to paying out generous dividends (current yield, 1%). But hostile bidders beware: Together with family members and various insiders, Leon Hess controls 17% of Amerada's 80 million shares.—**Peter Fuhrman**

MCA without a takeover tale

When the stock of MCA Inc. recently fell to 36⅝ in the teeth of the recent selloff, analyst Jeffrey Logsdon of Los Angeles' Seidler Amdec Securities noted that the company was selling at the cheapest P/E it has carried since 1983—barely 13 times the $2.85 a share he estimates the entertainment company will earn this year. It was also the first time in a long while that the 74 million NYSE-listed shares didn't have some sort of takeover premium built into their price. As one of the few major diversified leisure and entertainment outfits still independent, MCA's name crops up frequently as a potential target.

Ray Farrall/Photoreporters

Universal Studios Florida theme park
Ride the fundamentals.

Now that the stock has recovered to a recent 42¾, does Logsdon still like it on fundamentals? The answer is yes. MCA has lately been shouldering its equity share of the losses racked up by Cineplex Odeon, the troubled theater chain it owns nearly 50% of. (In 1990 Cineplex' red ink may translate to as much as 35 cents per MCA share.) Logsdon thinks this has to a degree masked the continued success of Universal Pictures, a leading producer of movies and TV shows. MCA scored a coup this year when it paid the equivalent of $550 million in preferred stock for record producer David Geffen Co. It also owns WWOR, an independent New York area TV station, and has a 50% stake in cable's USA Network. Both are profitable.

One question, near term, could be theme parks. After attendance gains last year, thanks to a new *Earthquake* attraction, business at the Universal Studios Tour in California is off slightly in 1990. MCA also owns 50% of a recently opened park in Orlando. There the rides draw high marks, but some are not yet running at full capacity because of mechanical problems.

Still, Logsdon doesn't think MCA will have any problem earning $2.85 a share this year, and as much as $3.25 in 1991. He says it's a buy—on fundamentals, not takeover talk.

They agreed

Last issue Streetwalker reported that cash-rich Penn Central Corp.—then at 23⅞ on the Big Board—was an uncommonly good bargain. The company planned to buy back 6 million shares, or 9% of its common, at $26 apiece. The cost would have come to $156 million. Penn Central said it would spend an additional $39 million if the offer was oversubscribed, in order to repurchase 1.5 million more shares.

Then the market went deeper into the tank. Recent share price: 22. So the company has amended its offer—

it now wants to repurchase 10 million shares at $23 a share. Cost: $230 million. And that would still leave the company swimming in roughly $800 million, or about $13 a share, of cash. We liked the stock then; we like it even better now.

Bilzerian's revenge

Junk bond holders aren't the only investors who were savaged by the takeover ghouls of the Eighties. Preferred shareholders of Singer Co. are still reeling from raider Paul Bilzerian's 1988 acquisition of the defense contractor. The preferred holders say they should have been bought out at 100 cents on the dollar. But the mustachioed manipulator offered them not a penny. Adding insult to injury, a federal judge stopped Singer from paying the $3.50 annual dividend on the preferred because of other judgments against the company. The preferred paper traded in the 40s when Bilzerian was pursuing Singer. Recently, the bid was a paltry 12.

Bilzerian has since been convicted on nine felony counts and sentenced to four years in the slammer; he's currently free pending appeal. Singer has changed its name to Bicoastal Corp., and Bilzerian no longer is chairman. But the company filed for Chapter 11 last fall amidst a complex web of legal problems.

But now Singer/Bicoastal has belatedly thrown preferred holders a bone. Current owners of the 1.43 million preferred shares are to be offered a new subordinated note with a face value of $19.75, plus $2.63 in cash. The five-year notes will bear a coupon of 18%—if, that is, Bicoastal ever escapes Chapter 11. The settlement is up for review this month before judges in both Florida and New Jersey.

Carps one preferred holder: "Everything has to go right in this company for us to get paid, but we don't really get the benefits if things work out."

Streetwalker couldn't find an analyst who either followed the preferred issue or had reviewed the new deal. Perhaps it's just as well. Bicoastal will be lucky to make good on an 18% coupon when so many companies have found payouts that steep to be unsustainable.

Time was, preferred stock was a safe haven for investors. But during the 1980s financiers like Paul Bilzerian found ways to make safe paper more risky before most investors could figure out what was going on.

—Eric Schmuckler and Jason Zweig

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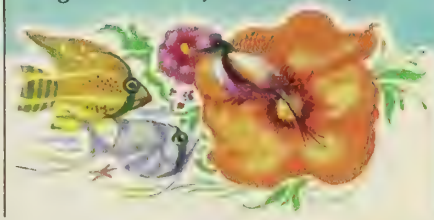

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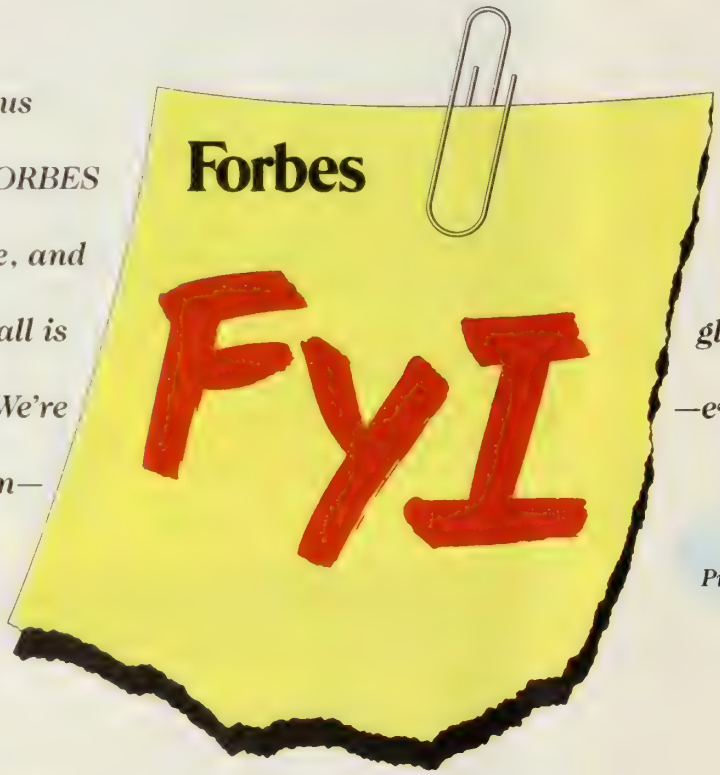

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Flashbacks

Edited by Dero A. Saunders

"The more things change. . . ."
Items from past issues of FORBES

Seventy years ago in FORBES

(From the issue of September 18, 1920)

"**This year** there is need to work. Any slacker, any sleepyhead, any drone could get by during the last two or three years, when help of every kind was at a premium. But conditions have changed. Competition is being restored, competition for jobs as well as for orders. There are now both necessity and opportunity for the exercise of every ounce of energy and ability we possess."

"**Airplane mail service** between the U.S. and Cuba will be inaugurated this fall. The contract, made between the government and the Florida-West Indies Airways Co., calls for daily transportation of mail between Key West and Havana for one year from Oct. 15."

Sixty years ago

(From the issue of September 15, 1930)

Miniature golf was about the only hot new industry as the Depression loomed

"**The expected** is happening tariff-wise. Almost every nation of the world is incensed. President Hoover's signature was hardly dry on the Smoot-Hawley mongrel measure before foreign countries instituted reprisals. Italy promptly imposed a virtual embargo on low-priced American automobiles. Other European nations began to consider how to hit back [and] cripple exports from the U.S."

Fifty years ago

(From the issue of September 15, 1940)

"**Except for recent** signs of life in the stock market, the latest fortnight brings no significant change in business activity. Meanwhile, the Department of Commerce reports that 1940 income payments to individuals through July were $41.6 billion, higher than in any [like] period since 1930."

The name says Pan Am, but the helicopter's real lineage is Vietnam

"**Early this month** the first full-color television was demonstrated by the Columbia Broadcasting System in New York City. According to Dr. Peter Goldmark, CBS' chief television engineer and inventor of the process, the colors are not 'streamed' through the air as are sound and pictures. Filters (red, green and blue) are utilized at the transmitter and the receiver to 'pick out' the hues."

Twenty-five years ago

(From the issue of September 15, 1965)

"**The New York World's Fair** fared far from well and, in saying farewell to it, we are saying good-bye not only to this mammoth spectacle but very probably to any such huge affair for years to come. . . . Even the enormously successful exhibits—GM, Ford, IBM, GE, Coca-Cola, Pepsi-Cola, Johnson's Wax, Travelers Insurance, Illinois, Spain, the Vatican Pavilion—found their dollar cost per visitor was far in excess of budgeted anticipations. Inordinate labor union charges have made many a country and company resolve 'never again' on large-scale world-fair participation."

"**Hardly a company** president is now alive who has not, at one time or another, considered moving his company's office from the city to suburbia—or even to exurbia. . . . An impressive number of companies have made the move and have been happy; others have made it—to their regret—and have moved back. By far the largest number of companies decided, after consideration, to stay where they were."

Ten years ago

(From the issue of September 15, 1980)

"**It was billed as a staff luncheon** celebrating Malcolm S. Forbes' 61st birthday, but the company's boss had more on his mind than simply marking the all-too-fast passage of time. Speaking with (for him) unusual solemnity . . . Malcolm finally came to the punch line: As of that day, Aug. 18, he was giving up the presidency of this company. A scant hour earlier the board of directors had elected Malcolm S. (Steve) Forbes Jr. president and chief operating officer of Forbes Inc."

Three FORBES generations—Steve (left), *founder B.C.* (portrait) *and Malcolm*

"**The Japanese government** is running a deficit that dwarfs that of Uncle Sam. Last year Japan's deficit was a full third of its budget. The U.S., by contrast, posted a budget deficit in fiscal 1979 of $28 billion—roughly 5% of the budget."

Thoughts
on the Business of Life

It is right it should be so;
Man was made for joy and woe;
And when this we rightly know
Through the world we safely go.
WILLIAM BLAKE

God will forgive me, its
his line of business.
ANONYMOUS POET

There are always some areas
world history does not
reach, zones of silence and
undisturbed ignorance.
FERNAND BRAUDEL

It's a slow burg—I spent a
couple of weeks there one day.
AMERICAN FOLK SAYING

There are those who so
dislike the nude that
they find something indecent
in the naked truth.
FRANCIS H. BRADLEY

Most politicians have no
politics. They are made entirely
by the circumstances of their
career. Lincoln kept clear in
his mind from first to last his
pure theory of politics. He
never compromised by an inch
in the statement of his
principles, even when he
had to compromise in the
application of them.
G.K. CHESTERTON

He should be the owner of the
land who rubs it between his
hands every spring.
RUSSIAN PEASANT SAYING

Why did the children put beans
in their ears when the one
thing we told the children
they must not do was put beans
in their ears?
CARL SANDBURG

Wisdom outweighs any wealth.
SOPHOCLES

HOW TO SUCCEED
Try hard enough.

HOW TO FAIL
Try too hard

If you say what you think,
don't expect to hear only
what you like.

Do you know any Belief
or Faith with followers
that doesn't start with
the Golden Rule?
MALCOLM FORBES

Different people have
different duties assigned
them by Nature; Nature has
given one the power or the
desire to do this, the other
that. Each bird must sing
with his own throat.
HENRIK IBSEN

The opinions of men are not
the object of civil government,
nor under its jurisdiction.
THOMAS JEFFERSON

Anxiety is love's greatest
killer. It makes one feel as
you might when a drowning man
holds on to you. You want to
save him, but you know he
will strangle you in his panic.
ANAÏS NIN

It is as hard to tell the
truth as to hide it.
BALTASAR GRACIÁN

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When I am in the country,
I wish to vegetate like
the country.
WILLIAM HAZLITT

In the city, time becomes visible.
LEWIS MUMFORD

Under government ownership
corruption can flourish
just as rankly as under
private ownership.
THEODORE ROOSEVELT

May you be a mail carrier and
have sore feet.
SPANISH GYPSY CURSE

A Text . . .

The secret things belong
to the Lord our God:
but those things which
are revealed belong unto
us and to our children
forever, that we may do
all the words of this law.
DEUTERONOMY 29:29

Sent in by John W. Larsen, Los Angeles, Calif. What's your favorite text? *The Forbes Scrapbook of Thoughts on the Business of Life* is presented to senders of texts used.

Every great advance in
natural knowledge has
involved the absolute
rejection of authority.
THOMAS HUXLEY

It is more important that
a proposition be interesting
than that it be true.
ALFRED NORTH WHITEHEAD

If I am a gentleman and you
are a gentleman, who will
milk the cow?
IRISH FOLK SAYING